# Annual report 2014

# Management report

# Message from the Chairmen

Dear Shareholders,

2014 was characterised by a still fragile economic environment and significant regulatory changes aimed at establishing a Banking Union in Europe.
Dexia's orderly resolution plan, set in December 2012, and approved by the European Commission, established a constraining framework for the Group's operation and impeded its capacity to generate results, in view of the cessation of any new business activity. 2014 therefore presented major challenges for Dexia.
Historically low interest rates in 2014 and during the start of 2015, resulted in an increase of the Group's balance sheet and its funding requirements despite the natural amortisation of its assets and disposals. In particular, the net cash collateral posted by the Group to secure its obligations under interest rates or currency swaps increased by EUR 9.8 billion to EUR 31 billion at the end of 2014. This situation necessitated greater use of the State funding guarantee than initially anticipated.
Dexia is also sensitive to the evolution of its regulatory framework. In this regard, the first application of the new Basel III standards resulted in a decrease of regulatory capital by EUR 1.1 billion and an increase in weighted risks by about EUR 7 billion, which weighed on solvency ratios, both at a consolidated level and for each of the Group's subsidiaries. These ratios nonetheless remain considerably higher than those required by the regulators.
Regulatory activity over the year was also affected by the implementation, on 4 November 2014, of the Single Supervisory Mechanism by the European Central Bank, which was preceded by a comprehensive assessment of the 130 banks under its direct supervision. Dexia was the only bank in resolution subject to this assessment, which required heightened dedication by our teams.
Despite the aforementioned, 2014 was still a year of significant achievements by Dexia, enabling it to pass certain key milestones in its resolution. The conclusions of the assessment made by the European Central Bank validated the assumption laid out in the orderly resolution plan and demonstrated the Group's strong resilience in the event of a severe deterioration of its environment. This exercise also confirmed the quality of Dexia's asset portfolios and risk management models and validated the account taken of the Group's special status as an entity in resolution by the European Central Bank.
In addition, the sales of Dexia Asset Management and Popular Banca Privada in February 2014 enabled the disposal programme scheduled in the orderly resolution plan to be finalised, with the exception of Dexia Israel which will only take place after the settlement of the legal proceedings currently under way.

The split of IT systems between Dexia and Société de Financement Local (SFIL) was completed, breaking the last operational links between both entities.

The Group also implemented a very cautious management strategy enabling it to handle significant funding redemptions whilst managing the increase in its liquidity requirements. At the end of 2014 and the beginning of 2015, Dexia repaid the remaining debt issued under the 2008 guarantee framework as well as outstanding guaranteed bonds subscribed by Belfius for an amount of EUR 12.8 billion, which reduced the Group's financial charges. On 27 February 2015, the Group repaid EUR 13 billion in bank bonds guaranteed by the States and used within the framework of the so-called "own use" mechanism. These measures constituted vital milestones in implementation of the orderly resolution, particularly Dexia's gradual exit from the exceptional funding mechanism granted by the European Central Bank and the reduction of recourse to the Eurosystem in the funding structure of the Group, and put an end to Belfius' exposure on the Dexia Group. At the same time, the funding guarantee granted by the states of Belgium, France and Luxembourg in 2013 continues to benefit from favourable reception by investors which, beyond the intrinsic quality of the guarantee, illustrates a sound understanding of the Group's status. Along with the evolution of the funding structure, the cost of funding was significantly reduced and was covered by the income from commercial portfolios. Consequently, the recurring net banking income was positive in 2014.

Lastly, in its simplified and integrated governance, and in accordance with its run-off mandate, Dexia continued in 2014 to adapt its operational structure. The IT systems were the object of an in-depth study leading to the definition of a global plan to centralise the different IT systems with a view to increasing the consistency and the quality of the information used by the Group's various entities and generate economies of scale.

In 2015, Dexia will continue its efforts to streamline and simplify its operational framework with a special focus on educational training for its employees. Centralisation of activities will also become a principal objective of the Group's resolution project, while maintaining active monitoring and management of the asset portfolios, in a continued uncertain economic and financial environment.

The Group's resolution will take time. The run-off path is the least expensive option for State shareholders and guarantors and is also the least risky for the banking sector and the European economies given the negative impact that could arise from a rapid liquidation of the Group. From this perspective, the progress made during the year has been significant. The Group relies on the support of the guarantors, the shareholders and close collaboration with the various stakeholders in the Group's resolution. We would like to express our gratitude to them. We also thank our staff members for their continued commitment, particularly for the dedication to key projects for the Group, as regulatory agenda was and will remain particularly demanding.

**Robert de Metz**
*Chairman of the Board of Directors*

**Karel De Boeck**
*Chief Executive Officer*

# Group profile

Dexia[1] is a European banking group managed under an orderly resolution plan since the end of 2011. The Belgian and French States own 94.4% of the Group since the end of 2012 when they made a EUR 5.5 billion capital injection. As a significant bank[2], Dexia has been under the direct prudential supervision of the European Central Bank within the framework of the Single Supervisory Mechanism (SSM) since 4 November 2014.

The Group's parent company, Dexia, is a public limited company (société anonyme) and financial company governed by Belgian law whose shares are listed on Euronext Brussels and Paris as well as the Luxembourg Stock Exchange.

Dexia's orderly resolution plan, which was approved by the European Commission in December 2012, aims to avoid the Group's bankruptcy and liquidation which, given the Group's residual size, could be destabilising to the entire European banking sector.

As a result of the resolution, Dexia no longer has any commercial activities and its residual assets are being managed in run-off. The Group's financial structure stands out from other banks in resolution due to its sizable asset portfolio and long-dated maturity profile. The financial structure also includes significant off-balance-sheet derivatives hedging the asset portfolio against fluctuations in interest and exchange rates. At the end of 2014, the Group's balance sheet totalled EUR 247 billion and off-balance-sheet commitments stood at EUR 413 billion. The remaining assets in Dexia's portfolio were primarily booked between 2006 and 2008 and carry relatively low credit spreads. Since the portfolio is hedged against rate movements, the sale of assets may require the unwinding of the hedges which could prove to be expensive.

Accordingly, the Group's resolution will need to be managed over the long term in order to protect Dexia's capital base. It will rely on an opportunistic asset sale strategy, aimed at reducing concentration risk of credit exposures. As such, the orderly resolution plan provides for the gradual reduction of assets to around EUR 91 billion by 2020 and EUR 15 billion by 2038.

Dexia Crédit Local is the Group's main operating entity and benefits from a funding guarantee provided by the States of Belgium, France and Luxembourg, up to a nominal amount of EUR 85 billion, to allow for the execution of the orderly resolution plan. Dexia Crédit Local is based in France, where it holds a banking licence, with branches in Ireland and the United States and subsidiaries in Germany, Spain, Italy, the United Kingdom and Israel. Dexia Sabadell, Dexia Crédit Local's Spanish subsidiary, also has a branch in Portugal. These entities also hold local banking licences, as applicable.

The governance of Dexia and Dexia Crédit Local has been streamlined and unified, with the members of Dexia's Management Board and Board of Directors also being members of Dexia Crédit Local's Management Board and Board of Directors.

At 31 December 2014, the Group's asset portfolio consisted of 86% investment grade assets and reflects Dexia Crédit Local's former status as a leader in the local public and project finance sectors, with a primary focus on local public entities in Europe and the United States and, to a lesser extent, European sovereigns and project finance.

After completing the sale of all the commercial franchises required under the Group's orderly resolution plan at the beginning of 2014, Dexia is now solely focused on managing its legacy assets while protecting the interests of the Group's State shareholders and guarantors. To meet this objective, the Group has established three main goals which form the core of the Group's "Company Project":

- Maintain the ability to refinance its balance sheet throughout its resolution plan;
- Preserve its capital base in order to comply with regulatory ratios;
- Ensure operational continuity by retaining the necessary expertise and resources and developing appropriate information systems.

*(1) Throughout this annual report, Dexia refers to Dexia SA/NV and Dexia Crédit Local refers to Dexia Crédit Local S.A.*
*(2) Regulation (EU) No. 468/2014 of the European Central Bank of 16 April 2014.*

**SIMPLIFIED STRUCTURE**

Belgian Federal State through the Federal Holding and Investment Company
**50.02%**

French State
**44.40%**

Institutional, individual and employee shareholders
**5.58%**

Dexia

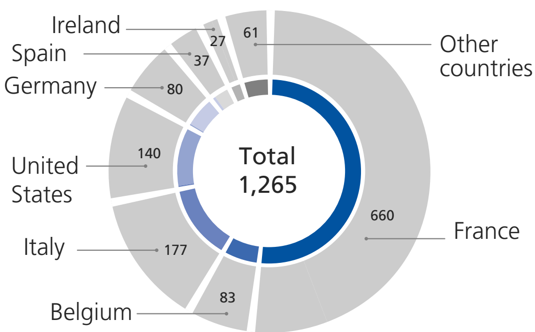
Dexia Crédit Local
**100%**

Dexia Crediop
**70%**

Dexia Sabadell
**100%**

Dexia Kommunalbank Deutschland
**100%**

**MEMBERS OF STAFF
AS AT 31 DECEMBER 2014**



| **RESULTS** (in EUR million) | 2012 | 2013 | 2014 |
|---|---|---|---|
| Net banking income | (807) | (474) | (247) |
| Costs | (556) | (401) | (381) |
| Gross operating income | (1,363) | (875) | (629) |
| Net income Group share | (2,866) | (1,083) | (606) |

| **BALANCE SHEET** (in EUR billion) | 31/12/2012 | 31/12/2013 | 31/12/2014 |
|---|---|---|---|
| Balance sheet total | 357.2 | 222.9 | 247.1 |

| **SOLVENCY** | Basel II | Basel III | |
|---|---|---|---|
| (in EUR million) | 31/12/2013 | 01/01/2014* | 31/12/2014 |
| Common Equity Tier 1 | 11,535 | 10,617 | 8,754 |
| Total Capital | 10,989 | 10,150 | 9,157 |
| Weighted risks | 55,321 | 47,335 | 53,377 |
| Common Equity Tier 1 ratio | 19.9% | 21.4% | 16.4% |
| Total Capital ratio | 20.9% | 22.4% | 17.2% |

* *Pro forma*

| **RATINGS AS AT 15 MARCH 2015** | Long term | Outlook | Short term |
|---|---|---|---|
| **Dexia Crédit Local** | | | |
| Fitch | A+ | Negative outlook | F1 |
| Moody's | Baa2 | Negative outlook | 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 | - |

# Highlights

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 2014 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 required under the resolution plan approved by the European Commission. Dexia Crediop has been managed in run-off since July 2014. Having reached its target resolution scope, Dexia is now focused on managing its assets in run-off, under a simplified governance structure and organisation.

## Impact of the macro-economic and credit environment on the Group's situation and recent developments

### Evolution of the Group's liquidity situation

Whilst the depreciation of the euro and the decline of oil prices are positive developments for the European economy, GDP growth forecasts for the eurozone 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 pressure, the European Central Bank continued with its accommodating monetary policy in 2014, as witnessed by the 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 drove interest rates in the eurozone 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 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(1) 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 the increase in its liquidity requirements and the repayment of significant funding lines at the end of 2014 and the beginning of 2015. As at 27 February 2015, Dexia had repaid the remaining portion of outstanding Belfius-owned guaranteed debt, which totaled EUR 12.8 billion. Dexia also had repaid the EUR 13 billion of own-used government-guaranteed bonds pledged to the Eurosystem refinancing operations This repayment is in line with the progressive exit in 2015 from this exceptional funding mechanism granted by the European Central Bank.
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 eurozone 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 in this market segment.

*More detailed information on Dexia's liquidity situation is provided in the chapter "Information on capital and liquidity" of this annual report.*

### Developments with regard to credit risk and legal risk associated with structured loans

2014 was marked by a very low cost of risk. Relative to Group total exposure, it amounted 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

In 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 the context of an active risk management policy, Dexia sold all its direct exposure to the City of Detroit and reduced its exposure to the Commonwealth of Puerto Rico.
The volatile economic environment also caused Dexia to increase its impairments on certain sectors and individual counterparties which were considered to be sensitive by the Group. The level of collective provisions on the renewable energy and banking sector were increased, in order to cover the risks associated with potentially unfavourable regulatory developments.

*(1) Deposits or financial instruments posted by Dexia to its counterparties in order to secure obligations under interest rate or currency swaps.*

Following the announcement made on 1 March 2015 by the Austrian Financial Market Authority (FMA-Finanzmarktaufsicht) concerning Heta Asset Resolution AG, previously Hypo Alpe Adria Bank International AG, the entity responsible for managing the legacy assets of Hypo Alpe Adria in run-off, Dexia also confirmed that it is currently analyzing the necessary measures needed to respond to the FMA decision and that it will book an impairment on its position in the first quarter of 2015.
Finally, 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 at the end of 2014.

*More detailed information is provided in the chapter "Risk management" of this annual report.*

### b – Legal risk associated with structured loans in France

In order to limit litigation risk, in 2014 the Dexia Group continued to desensitise the 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 through the implementation of two support funds, to help local authorities and hospitals facing financial difficulties. On 24 February 2015, the French government announced that the resources of these two mechanisms will be sharply increased in 2015, as announced by, to enable "contracts to be definitively desensitised and refinanced in order to neutralise their risk". In real terms, the envelope of assistance offered to local authorities, inter-communal groups and HLM (rent-controlled housing) offices for the desensitisation of their sensitive structured loans was increased from EUR 1.5 billion to EUR 3 billion over 15 years, and that available for the same loans to public hospitals was raised from EUR 100 million to EUR 400 million.

*More detailed information on Dexia's sensitive structured loans is provided in the chapter "Risk management" of this annual report.*

## Evolution of the prudential and regulatory environment

### Implementation of Basel III

In 2013, the European Parliament and Council adopted a set of measures to implement the Basel III accord within the EU legal framework. Taking effect on 1 January 2014, with some provisions to be phased-in between 2014 and 2019, the Capital Requirement Regulation (CRR) and Capital Requirement Directive IV (CRD IV) form the common regulatory bases for all Member States in implementing Basel III capital requirements. The CRR contains detailed prudential requirements for credit institutions and investment firms while the CRD IV was transposed by Member States within their respective national legal frameworks.

#### a – Harmonisation of the national discretions with respect to the regulatory solvency ratios

The CRD IV Directive provides for the deductibility of the AFS (Available for Sale) reserve from the regulatory capital, whilst authorising national discretions. The National Bank of Belgium (NBB) and the French "Autorité de Contrôle Prudentiel et de Résolution" (ACPR) have confirmed that the rules applicable to Dexia 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. For both Dexia Group and Dexia Crédit Local, the AFS reserve on sovereign securities does not have to be taken into account for the calculation of the solvency ratios and the AFS reserve relating to non-sovereign exposures has to be deducted from the regulatory capital up to an amount of 20% per annum.

#### b – First-time application of the Basel III solvency rules

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 by EUR 7 billion, particularly the Credit Valuation Adjustment (CVA), the Asset Value Correlation (AVC), and a change in methodology of the calculation of the Exposure at Default (EaD).

*More detailed information on the Group's solvency is provided in the chapter "Information on capital and liquidity" of this annual report.*

#### c – Liquidity coverage ratio: State-guaranteed debt is eligible for HQLA level 1 asset

As part of the implementation of the Basel III framework, the European Commission published a supplemental Delegated Act on 10 October 2014 related to the liquidity coverage requirement for credit institutions. This publication specifies the nature of assets which qualify as high quality liquid assets (HQLA), and their classification as level 1 and level 2 assets when determining the Liquidity Coverage Ratio (LCR). This ratio is planned to come into effect gradually during 2015.
Article 35 of the Delegated Act states that *"Assets issued by credit institutions which benefit from a guarantee from the central government of a Member State shall qualify as level 1 assets only where the guarantee:*
*(a) was granted or committed to for a maximum amount prior to 30 June 2014;*
*(b) is a direct, explicit, irrevocable and unconditional guarantee and covers the failure to pay principal and interest when due."*
*The State-guaranteed debt issued by Dexia Crédit Local meets these conditions and is therefore eligible as a level 1 high quality liquid asset (HQLA) in calculating the LCR.*
The HQLA level 1 eligibility of Dexia Crédit Local's State-guaranteed debt is a favourable outcome for the Group funding as it is expected to increase the appetite for Dexia's guaranteed debt of financial institutions required to comply with the LCR.

## Establishment of the Single Supervisory Mechanism

### a. – Comprehensive assessment performed by the European Central Bank

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.

Dexia was the only bank in resolution subject to this exercise and the Group performed the entire assessment, namely 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. In meeting the requirements of this assessment, the Dexia Group 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) provided for the stress test to be performed on the basis of a static balance sheet over 3 years (fixed as at 31 December 2013). However, due to Dexia's status as a bank in resolution and in line with the EBA methodology, Dexia assumed a decreasing dynamic balance sheet given the lack of new commercial activity.

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

The conclusions of this comprehensive assessment demonstrated the quality of the Dexia Group's assets and the robustness of its risk analysis. They also validated the assumptions contained in the Group's orderly resolution plan approved by the European Commission in December 2012.

#### Asset quality review (AQR)

As part of the asset quality review, 11 portfolios were analysed, representing more than half of the Group's weighted credit risks as at 31 December 2013. Following this review, 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 (cf. section entitled "Initiatives undertaken by Dexia following the outcome of the comprehensive assessment" below).

After integration of these elements, the Common Equity Tier 1 (CET 1) capital of Dexia 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%.

#### Stress-test and join-up exercise

After the join-up exercise, the baseline scenario of the stress test confirmed 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 projected to 2016 under the European Central Bank methodology was 10.77%, an amount of excess capital of EUR 1.4 billion against a 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% which could cause the Dexia Group to 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 impacted 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.

#### Conclusion: Dexia's specific status acknowledged

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 granted by supervisory authorities authorising 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 Group's orderly resolution plan, aimed at managing and funding its asset portfolios to maturity, and thus avoiding the cost of any liquidation. Application of these regulatory 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%.

No other remedial action was required by supervisory authorities.

### b – Initiatives undertaken by Dexia following the outcome of the comprehensive assessment

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.

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 and Dexia Crédit Local's regulatory capital on 31 March 2014.

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.

### c – Implementation of the Single Supervisory Mechanism

As a systemically important bank[1], Dexia has been subject to the direct supervision of the European Central Bank within the framework of the Single Supervisory Mechanism since 4 November 2014.

## Continuation of the Group's orderly resolution plan

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

During the first half of 2014, Dexia completed its entity disposals programme required under the orderly resolution plan, reaching the target scope. Specifically, Dexia sold all of its shares in Dexia Asset Management (DAM) to New York Life Investments on 3 February 2014 for a 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 did not require the disposal of Dexia Crediop, but nonetheless authorised its sale. To protect the entity's commercial activities, 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. Since negotiations had been undertaken with a potential purchaser, the Group received authorisation from the European Commission at the beginning of 2014 to extend the production window by an additional six months to 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.

Finally, in January 2013, Dexia completed the sale of Société de Financement Local (SFIL). 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.

### Further implementation of the Company Project

In May 2013, the Group launched a "Company Project" aimed at redefining its strategic objectives, its governance and the optimal operational model for the implementation of its resolution plan. While the transformation towards the target state is a multi-year effort, the Group started implementing concrete initiatives in 2014, namely changes in its business model and IT systems.

#### a – Adapting the business model

In line with its new mission and in order to achieve its strategic objectives, the Dexia Group implemented its new organisational structure and governance. Two business lines, Assets and Transformation, have been created, dedicated, respectively, to the management of the assets and client relationships and to the transformation of the Group's operating model. The internal organisation of the existing business lines Funding and Markets, Finance and Risk has also been streamlined, resulting in the creation of new teams, the transfer of staff across business lines and changes in functional content.

The Group's governance has been rendered more flexible by instituting a Transaction Committee that brings together the Heads of Assets, Funding and Markets, Finance, Risk and General Secretariat, Legal and Compliance and is authorised to approve Assets and Funding transactions within the delegation given by the Management Board.

In the framework of a global rationalisation process, Dexia also initiated in the third quarter of 2014 the operational integration of Dexia Management Services, a Dexia Crédit Local subsidiary registered with the Financial Conduct Authority (FCA) in the United Kingdom. The integration entails discontinuing the FCA licence and combining support functions and key front office functions with Paris head office. A limited number of front office staff will remain locally to serve clients, working closely with Paris.

#### b - Overhauling information systems

The Group launched in 2014 several studies in order to ensure adequacy between its information systems and strategic objectives during the resolution period. In this context, Dexia invested in a dedicated software-application in order to support the development of its Repo lending platform.

In order to strengthen the quality and consistency of data across the Group, a single database will be built and gradually replace various local databases.

*(1) Regulation (EU) No. 468/2014 of the European Central Bank of 16 April 2014.*

# Financial results

## Notes regarding to the 2014 consolidated financial statements for the Dexia Group

### Going concern

The consolidated financial statements of Dexia as at 31 December 2014 were prepared in accordance with the accounting rules applicable to a going concern. The assumptions detailed hereafter were the basis of the business plan underlying the Dexia Group resolution plan and were already explained in previous accounting closures.

• 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 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 ratings are also assumed to remain at current levels.

• It relies, moreover, on a robust funding programme based on Dexia's ability to issue debt guaranteed by 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 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 may not allow compliance with certain regulatory ratios during the 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[1] needs. Similarly, a less optimistic rating 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 half February 2015. The Group also continued to increase secured funding.

### Analytical segmentation

Having completed its commercial entity disposal programme at the beginning of 2014 as required under the resolution plan, Dexia is now focused on managing its residual assets in run-off, protecting the interests of the Group's State shareholders and guarantors.

In line with the Group's profile, Dexia's performance is now shown at a consolidated level on the basis of a single division entitled "Management of activities in run-off", without specific allocation of funding and operating expenses by segment of activity.

*(1) Deposits or financial instruments posted by Dexia to its counterparties in order to secure obligations under interest rate or currency swaps.*

This analytical presentation of performance is in line with Dexia's structure no longer consisting of homogenous operating units with their own decision-taking power in terms of resource allocation (funding and operating expenses). Consequently, operating charges must be considered globally and by geographic entity to ensure optimum management.

### Income 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[(1)];

• 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[(2)] 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.

### 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".

*(1) 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.*

*(2) Synthetic securitisation on an enhanced bond portfolio.*

## Analysis of the consolidated income statement

In 2014, the Dexia Group posted a net income Group share of EUR -606 million, of which EUR 87 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% between 1Q and 4Q 2014. 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 at 31 December 2014.

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 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.

**CONSOLIDATED INCOME STATEMENT - ANC FORMAT**

| (in EUR million) | 2013 | 2014 |
|---|---|---|
| **Net banking income** | **(474)** | **(247)** |
| Operating expenses | (401) | (381) |
| **Gross operating income** | **(875)** | **(629)** |
| Cost of risk and net gains or losses on other assets | (126) | (63) |
| **Pre-tax income** | **(1,001)** | **(691)** |
| Income tax | 39 | (8) |
| Net result from discontinued operations | (119) | 87 |
| **Net income** | **(1,081)** | **(613)** |
| Minority interests | 2 | (7) |
| **Net income Group share** | **(1,083)** | **(606)** |

## Analytical presentation of the result for the period

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

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

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

**ANALYTICAL PRESENTATION OF THE 2014 ANNUAL RESULTS**

| (in 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 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*

### a - Recurring elements

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 as net banking income is mainly due to exchange rate movements and reversals of impairments.

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.

**RECURRING ELEMENTS 2014**

| (in 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 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)** |

### b - Accounting volatility elements

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.

### c - Non-recurring elements

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 +71 million over the year);
- New provisions for litigation.

## Evolution of the consolidated balance sheet

At year-end 2014, the Group's consolidated balance sheet totalled EUR 247.1 billion, up EUR 24.2 billion from year-end 2013.

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.

# Risk management

## Introduction

In a continuing uncertain economic environment, the Group maintained its active credit risk management and focused on certain sectors and counterparties, especially the renewable energy sector, the banking sector, the city of Detroit and the Commonwealth of Puerto Rico. Relative to Group total exposure, the cost of risk came out at a very low level, 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 2014 Dexia also continued to desensitise the 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. This policy, combined with the evolution of the legal framework for structured loans in 2014, contributed to reducing the legal risk to which the Group is exposed.

The year 2014 was marked by the comprehensive assessment performed by the European Central Bank, upstream of implementation of the Single Supervisory Mechanism. This assessment included an asset quality review, which involved the teams in the risk activity line for a large part of the year.

Lastly, in the context of the company project initiated in 2013, governance of the activity line was adapted, following its refocusing on its control functions.

## Governance

The role of the Risk activity line is to define the Group's strategy on monitoring and managing risk and to put in place independent and integrated risk measures. The activity line seeks to identify and manage risk. If necessary it proactively alerts the relevant committees and proposes corrective actions where applicable. In particular, the Risk activity line decides on the amount of impairments deemed necessary to cover the risks to which the Group is exposed.

Implementation of the company project initiated by the Group in 2013 resulted in significant developments for the Risk activity line, which now focuses on its control functions. The organisation and governance of the activity line therefore evolved considerably over the year 2014.

### Role of the Management Board and the Transaction Committee

The Management Board is responsible for the various policies and directives framing Group strategy, particularly with regard to risk. To facilitate Group operations, a system of delegation of Management Board powers has been put in place.
The Management Board delegates its decision-taking powers in relation to operations giving rise to credit risks to a Transaction Committee. This committee includes the heads of the Assets, Funding and Markets, Finance, Risks and Secretariat General, Legal and Compliance activity lines. It can decide to submit larger credit files or those presenting a risk level considered sensitive to the Management Board which remains the body taking the ultimate decision. For each file presented to the transaction committee, an independent analysis is performed, to reveal the main risk indicators, and a qualitative analysis of the transaction.
Some of the powers of the transaction committee are delegated to the Asset and the Risk activity lines depending on the nature of the portfolios or risks concerned.
The Risk activity line establishes risk policies and submits its recommendations to the Management Board and to the transaction committee. It deals with the monitoring and operational management of Group risks under the supervision of these two committees.

### Organisation of the Risk activity line

#### The Risk Management Executive Committee

The decision-taking body of the Risk activity line is its Executive Committee. This committee consists of the head of risks and the five heads of:
- the credit risk department,
- the market risk department,
- the operational risk department,
- the strategic risk and regulatory supervision department,
- the risk quantification and reporting department, combining all the support functions of the activity line.

It meets on a weekly basis to review risk management strategies and policies as well as the main internal reports prior to their dissemination outside the activity line. In addition, it is responsible for monitoring regulatory issues, validating collective provisioning methodologies and the general organisation of the activity line.

The organisation and operation of the activity line also relies on certain committees, the prerogatives of which are governed by a system for the delegation of powers.

## Credit risk

Credit risk represents the potential loss, materialised by the reduction in value of an asset or by the payment default, that Dexia may suffer as the result of a deterioration in the solvency of a counterparty.

The credit risk department defines the Group's credit risk policy, which encompasses supervision of the processes for rating counterparties, analysing credit files and monitoring exposures within the Group. It also determines the impairments and collective provisions presented quarterly within the accounts coordination committee.

Along with the Management Board and the Transaction Committee, several committees, which meet quarterly, supervise the handling of specific risks:

- The **Watchlist Committee** supervises assets considered "sensitive", placed under watch, and decides on the amount of impairments set aside;
- The **Default Committee** screens and monitors counterparties in default by applying Group internal rules, in compliance with the regulatory framework;
- The **Rating Committee** ensures that rating processes are aligned with the established principles and that those processes are consistent across the Group's various entities.

## Market risk

Market risk represents the Group's exposure to changes in market parameters, such as interest and exchange rates.

Interest rate risk consists of structural interest rate risk and specific interest rate risk associated with a given credit counterparty. The latter arises from fluctuations in the credit spread on specific counterparties within a rating class.

The foreign exchange risk represents the potential decrease in the value of assets arising from fluctuations in exchange rates against the euro, which is the reference currency in which the Dexia Group prepares its financial statements.

The market risk department is responsible for supervising the market risk under the aegis of the Management Board and specialist risk committees. It identifies, analyses and monitors risks and results (including financial instrument valuations) associated with market activities.

The risk management department consists of both central and local teams. The central teams define Group-wide methods for calculating and measuring risks and results. They are tasked with measuring, reporting and monitoring the risks and results on a consolidated basis for each of the activities for which they are responsible, on the basis of reports produced by the product control department, recently created within the Finance activity line. Local teams within each operating entity are tasked with monitoring day-to-day activity. They ensure that Group policies and guidelines are properly applied, and are responsible for assessing and monitoring risk, working directly with the operational teams.

Market risk policy and management are in the hands of the Management Board and the Risk Management Executive Committee. To facilitate operational management, a system of delegated authority has been put in place within the Group.

- The **Market Risk Committee** is responsible for market risk governance and standards. It defines the risk limits that form the general framework for the Group's risk policy and approves hedge transactions by delegation from the Management Board. It meets on a monthly basis.
- The **Valuation and Collateral Monitoring Committee** meets quarterly to analyse indicators relating to the collateral management and to monitor the valuation of structured products.

## Transformation risk

Monitoring transformation risk involves monitoring the risk of loss associated with the transformation of the banking portfolio as well as liquidity risk.

Transformation risk arises when assets are refinanced by resources presenting a different maturity, indexation or currency. It includes structural risks associated with the financing of holdings with equity in foreign currencies.

Liquidity risk measures Dexia's ability to deal with its current and future cash requirements, both on a discounted basis and in the event of a deterioration in the Group's environment, on the basis of a range of stress scenarios.

Within the Risk activity line, a dedicated ALM Risk team is in charge of defining the risk framework within which management may be placed in the hands of the Financial Strategy department within the Finance activity line, of validating the models used to actually manage risk, and of monitoring exposures and checking compliance with Group standards. ALM Risk also defines the stresses to be applied to the various risk factors, validates the risk management approach adopted by the Finance activity line and ensures that it complies with the regulatory framework in force.

Asset and liability management is supervised by the Dexia Management Board, which meets on a quarterly basis to determine the global risk framework, set limits, guarantee the consistency of strategy and delegate operational implementation to local ALM committees.

The Management Board approves asset and liability management transactions, centralises and coordinates the decision-taking process concerning liquidity matters. It is periodically informed of the Group's liquidity position and its evolution and its cover by short, medium and long-term resources. It ensures that liquidity targets are met and contributes to elaborating strategies for funding and asset deleveraging.

In the Group's subsidiaries and branches, local committees manage specific balance sheet risks within the framework defined by the Group's Management Board, under the latter's responsibility.

## Operational risk and IT systems security

Operational risk represents the risk of financial or non-financial impacts arising from a shortcoming or failure in internal processes, personnel or systems, or external factors. This definition includes IT, legal and compliance risks.

Operational risk, activity continuity and IT systems security management is coordinated by a central team within the Risk activity line supported by a network of correspondents within all subsidiaries and branches, as well as within the Group's various departments. Within each activity domain, an

operational risk correspondent coordinates data collection and assesses risks, supported by the operational risk management function, ensuring good continuity management.
The Management Board regularly monitors the evolution of the risk profile of the various Group activities and delegates the operational management of risk monitoring to the **operational risk committee**. Meeting quarterly, this committee examines the main risks identified and decides on the corrective actions to be taken. It validates measurement, prevention or improvement proposals in relation to the various elements of the mechanism.
The operational risk committee relies on committees dedicated to activity continuity and IT systems security, meeting every two months. They examine and decide on actions to be taken to guarantee activity continuity and the implementation of a policy for IT systems security.

# Risk monitoring

## Credit risk

Dexia's Risk department has put in place a range of policies and procedures in order to govern credit risk management within the risk analysis, decision and monitoring functions. At the beginning of 2014, Dexia updated all of its credit risk policies with a view to adapting them to the new regulatory texts in particular relating to the concepts of forbearance and non-performing exposure.
On the other hand, credit risk policies were subject to in-depth examination within the context of the comprehensive assessment by the European Central Bank in 2014. The conclusions of the comprehensive assessment of Dexia are detailed in the chapter "Highlights" of this annual report.

### Risk measurement

Credit risk is mainly measured using internal rating systems put in place by Dexia under the Basel regulatory framework. Each counterparty is assigned an internal rating by counterparty risk analysts using dedicated rating tools.
This internal rating is an assessment of a counterparty's default risk, expressed via an internal rating scale. Ratings are reviewed annually, making it possible proactively to identify counterparties requiring regular monitoring by the Watchlist Committee.
To control the Group's general credit risk profile, credit risk limits are determined for each counterparty. They are of two types:

- limits to exposures in run-off in order to check that no purchase is made and thus optimally to manage the run-off of assets;
- dynamic limits subject to revision in relation to the credit risk associated with counterparties on funding (Repo) and derivative transactions.

### Exposure to credit risk[1]

Credit risk is expressed as Maximum Credit Risk Exposure (MCRE) and represents the net carrying amount of exposures, being the notional amounts after deduction of specific impairment and available-for-sale reserve amounts, and taking into account of accrued interest and the impact of fair value hedge accounting.
As at 31 December 2014, Dexia's maximum credit risk exposure amounted to EUR 172.2 billion, compared to EUR 173.5 billion at the end of December 2013. The fall linked to natural portfolio amortisation and asset sales is offset by an exchange effect due to the appreciation of the US dollar and the pound sterling against the euro over the year 2014 and by fair value adjustments resulting from the tightening of credit spreads. At a constant exchange rate, the asset portfolio was down by EUR 6.3 billion over the year.
Exposure is mostly concentrated in the European Union as well as the United States and Canada. Compared to the end of 2013, it was down slightly, with the exception of exposure in the United States, Canada and the United Kingdom due to the exchange effect and exposure to Portugal following the tightening of credit spreads.

**BREAKDOWN BY GEOGRAPHIC REGION**

| (in EUR million) | 31 December 2013 | 31 December 2014 |
|---|---|---|
| United States and Canada | 26,552 | 28,689 |
| Italy | 27,766 | 27,178 |
| France | 28,096 | 26,656 |
| Germany | 21,988 | 21,397 |
| Spain | 19,939 | 18,968 |
| United Kingdom | 16,748 | 17,865 |
| Japan | 6,002 | 5,839 |
| Portugal | 3,740 | 4,122 |
| Central and Eastern Europe | 3,759 | 3,539 |
| Belgium | 3,501 | 3,134 |
| Austria | 1,732 | 1,481 |
| Scandinavia | 1,035 | 1,113 |
| Hungary | 1,306 | 1,102 |
| South-East Asia | 1,062 | 990 |
| Netherlands | 944 | 621 |
| South and Central America | 715 | 584 |
| Switzerland | 536 | 553 |
| Turkey | 540 | 502 |
| Ireland | 267 | 221 |
| Greece | 216 | 156 |
| Luxembourg | 149 | 158 |
| Other | 6,863 | 7,369 |
| **TOTAL** | **173,457** | **172,238** |

*(1) Cf. also note 7.2. "Credit risk exposure" to the consolidated financial statements in this annual report.*

As at 31 December 2014, exposure remained mostly concentrated on the local public sector, considering the historical activity of Dexia Crédit Local. The share of financial institutions increased slightly, in particular due Repo-transactions in the context of the Group funding. The corporate segment was down, taking natural portfolio amortisation into account. The evolution of exchange rates (US dollar and pound sterling) and the improvement of credit spreads explain the increasing exposure to certain sectors, particularly project finance and central governments.

**BREAKDOWN BY TYPE OF COUNTERPARTY**

| (in EUR million) | 31 December 2013 | 31 December 2014 |
|---|---|---|
| Local public sector | 90,460 | 86,526 |
| Central governments | 26,836 | 28,148 |
| Financial institutions | 25,716 | 27,340 |
| Project finance | 14,493 | 14,761 |
| ABS/MBS | 6,901 | 6,692 |
| Corporate | 5,906 | 5,538 |
| Monoliners | 3,143 | 3,232 |
| Individuals, SME and self-employed | 2 | 1 |
| TOTAL | 173,457 | 172,238 |

The credit quality of the Dexia portfolio remains high, with almost 86% of exposure rated "Investment Grade" as at 31 December 2014.

**BREAKDOWN BY RATING***

| (in EUR million) | 31 December 2013 | 31 December 2014 |
|---|---|---|
| AAA | 14.00% | 15.13% |
| AA | 21.63% | 22.59% |
| A | 28.88% | 28.53% |
| BBB | 21.13% | 20.14% |
| Non Investment Grade | 12.73% | 12.13% |
| D | 0.78% | 0.59% |
| Not rated | 0.87% | 0.88% |
| TOTAL | 100% | 100% |

** Internal Rating System.*

Particular attention is paid to the ten countries presented in the table below because of the important outstanding amounts or their sensitivity. The main developments and significant facts for these sectors and countries in 2014 are discussed in the following paragraphs.

**GROUP'S SECTOR EXPOSURE TO CERTAIN COUNTRIES (AS AT 31 DECEMBER 2014)**

| (in EUR million) | Total | Local public sector | Corporate and project finance | Financial institutions | ABS/MBS | Sovereigns | Monoliners |
|---|---|---|---|---|---|---|---|
| United States and Canada | 28,689 | 11,855 | 1,646 | 4,915 | 4,569 | 2,880 | 2,825 |
| Italy | 27,178 | 11,125 | 1,400 | 582 | 170 | 13,901 | 0 |
| France | 26,656 | 18,069 | 4,572 | 3,153 | 0 | 862 | 0 |
| Germany | 21,397 | 16,489 | 488 | 4,086 | 9 | 324 | 0 |
| Spain | 18,968 | 7,929 | 2,478 | 7,344 | 691 | 527 | 0 |
| United Kingdom | 17,865 | 9,267 | 6,304 | 1,597 | 221 | 70 | 407 |
| Portugal | 4,122 | 1,788 | 206 | 10 | 138 | 1,980 | 0 |
| Hungary | 1,102 | 31 | 35 | 31 | 0 | 1,006 | 0 |
| Ireland | 221 | 0 | 70 | 80 | 71 | 0 | 0 |
| Greece | 156 | 72 | 73 | 0 | 11 | 0 | 0 |

### Dexia Group commitments on sovereigns

Dexia Group outstanding on sovereigns is focussed essentially on Italy, Poland and the United States and to a lesser extent on Portugal, Hungary, France and Japan.
The Group has no sovereign exposure to Russia and the Ukraine.

### France

In 2014, economic growth remained weak. The public deficit continued to swell with the level of public debt gradually reaching 100% of GDP. Nevertheless, despite a difficult economic situation, large public deficits and limited room for any tax manoeuvre, France still benefits from favourable funding conditions on the financial markets.

Dexia's sovereign exposure to France amounted to EUR 0.9 billion as at 31 December 2014.

### Italy

The contraction of Italian GDP continued in 2014. Despite reform undertakings made by Prime Minister Matteo Renzi, room for manoeuvre remains limited. Although sovereign funding conditions have improved significantly and the fiscal balance shows a primary surplus, pubic debt, estimated at 132% of GDP in 2014, remains extremely high. The maintenance of growth at a near-zero level impairs the country's debt reduction.

Dexia's sovereign exposure to Italy amounted to EUR 13.9 billion as at 31 December 2014, composed mainly of bonds.

### Greece

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 sovereign debt. Exposure to other Greek counterparties amounted to EUR 156 million at the end of December 2014.

### Portugal

The return to growth in 2014 is a positive factor, after three consecutive years of recession and a reform programme imposed under the international aid plan from which the country .made a successful exit last May. The economic recovery which began in 2014 should continue in 2015 accompanied by a significant fall of the public deficit. On the financial markets, Portugal's funding conditions have improved considerably. Estimated at 5% of GDP, its liquidity reserves reassured investors with regard to the State's capacity to honour its financial commitments. However, the outcome of the legislative elections scheduled for October 2015 could result in a change of agenda for the promised reforms.

Dexia's sovereign exposure to Portugal amounted to EUR 2 billion as at 31 December 2014, composed almost exclusively of bonds.

### Poland

Poland is the only country among the 28 in the European Union to have seen positive economic growth since the crisis began in 2008. After growth of 1.7% in 2013, the increase in GDP could reach 3% in 2014, according to the government, and 3.1% in 2015. However, although resisting external shocks, the country could see its economy affected by growth problems in Europe, to which 55% of its exports are shipped, or by the Ukrainian conflict if it persists.

Dexia's sovereign exposure to Poland amounted to EUR 2.1 billion as at 31 December 2014, composed almost exclusively of bonds.

### Hungary

In Hungary, Prime Minister Viktor Orban was re-elected to parliament with an absolute majority last April. The economy improved with growth at 3.2% in 2014, a stabilisation of public finance and a reduction of external debt. In 2014, the authorities adopted measures aimed at resolving the problem of currency loans granted by banks to their customers during the period from 2000, which acted as a significant economic brake.

Dexia's sovereign exposure to Hungary amounted to EUR 1 billion as at 31 December 2014, composed almost exclusively of bonds.

### United States

With growth at 3.5% year-on-year in the third quarter 2014, the US economy shows strong signs of recovery. Private consumption and corporate investment confirm their progress with the latter rising 7.2%. The labour market is improving, despite a historically low employment rate. The momentum of the recovery led the Federal Reserve to end its unconventional measures of quantitative easing in October 2014. The impact on rates, kept at a very low level, should be felt from mid-2015.

Dexia's sovereign exposure to the United States amounted to EUR 2.9 billion as at 31 December 2014, of which EUR 0.8 billion in bonds and EUR 2 billion in short-term deposits.

### Japan

Japan went into recession at the end of the third quarter 2014. In a reform context, the Japanese government decided to raise VAT from 5% to 8% on 1 April 2014, in order to generate additional tax receipts and to contain a large public debt. The government had intended to increase VAT to 10% in 2015, but Prime Minister Shinzo Abe decided to postpone this second increase until 2017 so that it does not further impact household consumption. Following his victory in the early elections held in December 2014, Prime Minister Shinzo Abe introduced a recovery plan for Japan in an amount of EUR 24 billion aligned to the reconstruction of regions affected by the tsunami, household consumption and support for small businesses.

Dexia's sovereign exposure to Japan amounted to EUR 1.3 billion as at 31 December 2014. The entirety of this exposure consists of bonds in yen, the currency risk of which is hedged.

## Dexia Group commitments on the local public sector

### France

Traditionally, election years are marked by a fall in investment. This was confirmed in 2014, with investments contracting 7.4% to EUR 53 billion. Concentrating one half of investment expenditure on the local public sector, the municipalities still remain the main actors.

Local authorities are continuing in their efforts to control expenditure against a background of falling operational receipts and a reduction of State subsidies of EUR -1.5 billion, or -3% compared to 2013. As a consequence, gross savings continued their slow erosion for the third consecutive year, from 18.2% to 17% of operating receipts. The contraction of savings is particularly marked for municipalities (15% in 2013 and 13.6% in 2014).

The increase of debt outstanding remains steady; it reached EUR 173 billion, or a rate of indebtedness of 81%. The regions are more severely impacted by the increase of debt outstanding (+6%) with the rate rising from 87.5% to 93.5% of operating receipts. Whatever the type of the local authority, debt reduction capacity remains very reasonable, at less than five years on average and less than six years for municipalities alone.

The fall in subsidies is nonetheless weighing on the financial outlook for local authorities, with the announcement of a reduction of EUR 3.7 billion per annum until 2017. In addition, local authorities must overcome the double challenge of lower momentum in tax receipts on the one hand and the difficulties in controlling expenditure on the other hand, particularly the social expenditure of departments. The institutional context is also evolving with a plan to merge the 26 regions into 13 in 2016.

Very few payment incidents are to be noted on Dexia's French public sector portfolio in 2014, three quarters of which outstanding is concentred on local authorities and social housing. Rating levels are high, with 70% of outstanding rated A- or better. Non-Investment Grade outstanding only represents 4% and defaults 1% of total exposure to this sector.

Dexia's exposure to the French local public sector amounted to EUR 18.1 billion as at 31 December 2014

*Update on the desensitisation of structured loans in France*

The year 2014 saw a continuation of the desensitisation of structured and/or sensitive loans subscribed before the financial crisis, jointly by borrowers and lenders.

Structured loans are defined by reference to the classification of types of contracts by their risk level as established several years ago on the request of the French government[1]. This classification has five levels, as well as an "off-charter" perimeter. Structured and/or sensitive credits are defined there as:

- all loan contracts in categories B to E of that classification;
- all so-called "off-charter" contract;
- with the exception of all loans whose structured phase has ended and whose interest rate is definitively set, or variable according to the simple addition of an index normally used on the eurozone interbank or money market, and a fixed margin expressed in percentage points.

Sensitive structured loans are subject to specific monitoring and actions aimed at "reducing the associated risk" of these types of loans (according to the terms of Article 32-II of the Law No 2013-672 of 26 July 2013 on the separation and regulation of banking activities). The sensitive structured loan exposure on Dexia's balance sheet has been reduced to EUR 1.2 billion at the end of 2014.

In order to reduce the risk of litigation in relation to structured sensitive loans and to enable Dexia to desensitise such loans, the European Commission has authorised Dexia to grant new production flows up to a maximum of EUR 600 million, during two specific production windows, from February to July 2013 and from June to November 2014, within the context of the Group's orderly resolution plan. During the second and last production window, between June and November 2014, Dexia was able to respond to requests from customers wishing to take this opportunity to desensitise eligible loans.

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 and hospitals facing financial difficulties, through the implementation of two support funds. The resources of these two mechanisms will be sharply increased in 2015, as announced by the French government on 24 February 2015, to enable "contracts to be definitively desensitised and refinanced in order to neutralise their risk". In real terms, the envelope of assistance offered to local authorities, inter-communal groups and HLM (rent-controlled housing) offices for the desensitisation of their sensitive structured loans was increased from EUR 1.5 billion to EUR 3 billion over 15 years, and that available for the same loans to public hospitals was raised from EUR 100 million to EUR 400 million.

*More detailed information on Dexia's sensitive structured loans and the evolving legal framework in France is provided in the chapter "Litigations" of this annual report.*

## Italy

Since 2011 the Italian State has faced a significant deterioration of national macroeconomic indicators. Having fallen into recession in 2011, the country seems to have escaped in 2014 with a very low rate of growth of GDP estimated at 0.7%. However, the unemployment rate is constantly increasing, and is now above 10%.

For a few years Italy has been committed to a policy of limiting the expenditure of all public administrations, particularly local authorities. Their income has been severely impacted by the reductions of State transfers, particularly for the public health sector, which represents 70% to 75% of the current expenditure of the Italian regions.

According to the latest available accounts, the financial situation of the various authorities is improving. In particular, Italian municipalities have seen a clear increase in their receipts, higher than the rate of current expenditure. Finally, municipal debt is down, confirming the development which began in 2011.

Furthermore, Law 213/2012 introduced the possibility for municipalities to declare themselves "pre dissesto", an interim stage enabling the authority to establish a refinancing plan submitted for approval to the Regional Court of Auditors, and aiming to give room for manoeuvre in the effort to return to financial stability. At present, three Dexia counterparties have declared themselves "pre dissesto": the cities of Catania, Naples and Messina.

The financial evolutions of the Italian regions have been much more contrasted. The fall of current income was offset by a reduction of their current expenditure. The level of debt is down slightly, representing a total of EUR 41.3 billion. The financial situation of the regions is still fragile however, as they are now extremely sensitive to a rise of expenditure. This situation led Dexia to lower the ratings of seven regions following an examination of the latest available accounts.

Dexia's exposure to the Italian local public sector amounted to EUR 11.1 billion as at 31 December 2014.

## Spain

Introduced by the Spanish government, the assistance programmes from the Autonomous Liquidity Fund (ALF – intended for the regions and provinces) and a fund dedicated to clearing supplier debts intended for the regions and municipalities (FFPP) provided significant support to local authorities, the financial outlook of which is marked by fall in their income, closely linked to the crisis in the real estate sector.

The financial situation over recent financial years suggests an evolution which differs from one local authority to another. The situation of the provinces has improved. In contrast, autonomous communities and municipalities have seen their indicators follow more mixed developments. According to the latest available accounts, the current receipts of the regions have fallen and some, such as the Regions of Valencia and Catalonia continue to present very high debt levels, at 282% and 225% respectively of current receipts. Finally, financial elements suggest an improvement of the situation

*(1) http://www.collectivites-locales.gouv.fr/lemprunt-structure-et-charte-gissler*

of municipalities, with an increase of current receipts. The level of gross savings is still low, and does not cover debt amortisation.

Current prospects confirm the trend. The regions have seen their debt increase whilst their current receipts have fallen. The provinces continue to post limited debt. Finally, municipalities post a deteriorating evolution, marked by a fall in their gross margin and a slight rise in their debt.

These persisting difficulties and the contrasted developments have led to a downgrade of the internal ratings of 3 of the 17 regions.

Dexia's exposure on the Spanish local public sector amounted to EUR 7.9 billion as at 31 December 2014.

### Portugal

Portugal is marked by a sharp contrast between the financial situation of its regions, which has deteriorated somewhat, and that of its municipalities, which is more favourable. Financial developments in the country's two autonomous regions, Madeira and the Azores, are contrasted. The island of Madeira in particular presents an extremely high debt level, reaching 400% of its current income. As a result, the Portuguese State is continuing in its efforts to control the region's expenditure, strengthening the criteria of the stabilisation plan introduced on Madeira in 2012. The financial situation of the islands of the Azores presents a more stable profile, marked by a control of debt at a level of 120% of current income.

In contrast, according to the latest available accounts, the financial data and current outlook suggest that the financial situation of the Portuguese municipalities is positive overall and improving.

However, due to the persistence of a difficult economic environment for the country and internal problems encountered by the autonomous region of Madeira the internal rating of Portuguese local authorities could not upgraded.

Dexia's exposure on the Portuguese local public sector amounted to EUR 1.8 billion as at 31 December 2014.

### Germany

The initial financial indicators for the year 2014 suggest that the financial situation of local authorities is unchanged overall and still very favourable. Nevertheless, developments in the different Länder are contrasted. Some experience constant improvement, like Baden-Württemberg, Bavaria and Saxony, the 2014 growth rates of which are estimated to be higher than 1.5%. On the other hand, other regions present a worrying level of debt, although this fell in 2013 and 2014. Berlin, Bremen and even the Saar have debt rates which were still above 200% of current income in 2013 and data available for 2014 does not offer any hope of this trend easing.

The efforts of the Länder aimed at facilitating debt reduction in some municipalities posting very high debt levels continue, with the elaboration of programmes to support their municipalities so as to foster a reduction of their debt levels. The results of this policy, launched from 2011, are still limited however.

Some risks appear on operations to desensitise structured loans, which only represent a limited portion of Dexia's overall exposure in Germany.

Dexia's exposure on the German local public sector amounted to EUR 16.5 billion as at 31 December 2014.

### United Kingdom

The target of achieving a budget balance in 2019, without increasing taxes, is confirmed by the government of David Cameron. Since 2010 State expenditure has already been reduced by 21% and over the next three years (excluding the health, education and development aid budgets) these should fall another 25%. At the same time, numerous reforms are being introduced on a fiscal or accounting level.

Against this background of falling subsidies and the freezing of local taxes, local authorities have so far succeeded in adapting and, without deterioration, preserving the most vital services to the population, by virtue in particular of the gains in productivity and severe cuts to secondary budget items. So, despite some historically difficult situations and an almost 14% fall in receipts expected in 2014/2015, at this stage the close of the financial year raises no particular concerns.

As for the social housing sector, the government target clearly means a fall in subsidies granted to finance new programmes even though demand remains high. The slowdown of investments is confirmed and henceforth only the best organised structures or those of critical size will receive the largest proportion of aid. Other associations will thus be forced to develop commercial activities at the same time, to offset the fall in public financing. Although the extent of this phenomenon is still limited, the impact of these more risky activities should be carefully monitored.

Dexia's exposure on the United Kingdom local public sector amounted to EUR 9.3 billion as at 31 December 2014, of which EUR 4.6 billion on local authorities and EUR 4.7 billion on social housing.

In terms of risk, the British institutional framework enables the quality of outstanding on local authorities to be considered close to sovereign risk. As for the social housing portfolio, to date it presents no sensitivity.

### Greece

The two local authorities to which Dexia is exposed, the municipalities of Athens and Achamai, have continued to pay debt maturities despite the crisis of recent years. Their financial resources partially remain tributaries of State payments. Dexia's exposure amounted to EUR 72 million as at 31 December 2014.

### United States

The federated States have benefited from the economic recovery in the United States since 2011, in view of the strong correlation of their receipts (mostly consisting of income and sales taxes) to the economic situation. These federated States remain among the most important issuers on the US bond market, creditors benefiting from a protective institutional framework.

More than 75% of the Dexia Crédit Local portfolio on the federated States consists of counterparties rated AA or higher. Nevertheless, Dexia remains exposed to risky counterparties, given their deteriorating economic and financial situation. In particular, the Group is paying close attention to the situation of the city of Detroit and the Commonwealth of Puerto Rico.

The city of Detroit, which declared insolvency on 18 July 2013, has succeeded in reaching agreements with all of its creditors and in November 2014 the courts approved the recovery plan which asks a great deal of creditors and insurers. The city, which had already made significant budgetary efforts, was deemed capable of fulfilling its obligations and achieving its projections in relation to financial results.

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 the 1st quarter of 2014, 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 was 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.

In 2014, considerable attention was also paid to the situation of the Commonwealth of Porto Rico in view of its particularly tense financial situation, especially in terms of liquidity, structural deficit and high debt, which is in fact ten times higher than the average of the federated States. Some improvements have been observed however since the arrival of Governor Padilla in January 2013. Among these positive points are the presentation of the first balanced budget for more than a decade, the passing of the "Puerto Rico Public Corporations Debt Enforcement and Recovery Act" (a debt restructuring mechanism for public companies, similar to Chapter IX of the Bankruptcy Act), the implementation of retirement reforms, and the process for reducing expenditure and deficit financing. This recovery programme aims to take the deficit to zero by 2016. 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.

Dexia's exposure on the US local public sector amounted to EUR 10.6 billion as at 31 December 2014.

### Dexia Group commitments on project finance and corporates

The portfolio of project financing and corporate loans remained stable over the year, at EUR 20.3 billion as at 31 December 2014. It is composed 73% of project financing[1], the balance being in corporate loans, such as acquisition funding, commercial transactions and corporate bonds. Over the year, natural amortisation of the portfolio and early redemptions of debt refinancing by borrowers were offset by the effects of exchange variation.

As at 31 December 2014, the project finance portfolio amounted to EUR 14.8 billion. It consists 54% of Public-Private Partnerships (PPP), principally in the United Kingdom and France, 22% in energy sector projects, mostly in the field of renewable energies, and 10% in projects presenting a traffic risk. 73% of the portfolio is placed in Eastern Europe, 18% in the United States, Canada and Australia. 70% of the portfolio is on average rated "investment grade".

Some projects require very close monitoring. The various mechanisms for Spanish State support to local authorities (ALF and FFPP) enabled all or some of the payment arrears on public-private partnerships posted previously in Spain to be cleared. On the other hand, the changes to the Spanish regulatory framework on renewable energies adopted on 16 June 2014, revising existing tariffs, will have an unfavourable impact on part of Dexia's portfolio of Spanish renewable energy projects, necessitating debt restructuring. To date, only one restructuring has been finalised, without generating a loss for Dexia. As a result, Dexia increased its provision on counterparties from the renewable energy sector in Spain up to EUR 68 million[2] at the end of December 2014. This impairment has not been extended to Italy, as the retroactive review of green electricity purchase tariffs in that country is considered unlikely.

Dexia's exposure to project finance in Greece (2 projects) amounted to EUR 73 million as at 31 December 2014, with impairments for an amount of EUR 14 million.

The corporate loan portfolio is approximately EUR 5.5 billion at the end of 2014. It consists 44% of companies in the utilities sector (water, environment, distribution and transmission of energy or gas) and 35% of companies in the infrastructure sector (motorway operators, airports, ports and car parks). 90% of the portfolio is situated in Eastern Europe, 7% in the United States, Canada and Australia. 84% of the portfolio is rated "investment grade". The main difficulties have been encountered on acquisition funding prior to the financial crisis, presenting too high leverage and difficult to refinance under current market conditions.

### Dexia Group commitments on ABS

As at 31 December 2014, Dexia's ABS portfolio amounted to EUR 6.7 billion, down EUR 0.2 billion on the end of 2013 as a result of the natural amortisation of positions and some strategic sales.

This portfolio consist of EUR 4.2 billion in US government student loans, which present a rather long amortisation profile and good credit quality, benefiting from the US State guarantee. The balance is principally in residential mortgage backed securities (RMBS) in an amount of EUR 1.2 billion with EUR 0.5 billion in Spain.

*(1) Transactions without recourse to their sponsors the redemption of which is only on the basis of their own cash-flows and strongly secured in favour of the bank, for example via sureties on assets and contracts or a limitation of dividends*

*(2) Of which EUR 49 million of sector provision and EUR 19 million of statistical provision.*

The year 2014 showed encouraging signs by virtue of the slowdown of the fall in residential real estate prices in Spain, a slight fall in unemployment and an improvement in the performance of Spanish borrowers. In addition, external ratings benefited from the upgrade of the Spanish sovereign rating.
The quality of the ABS portfolio remains stable overall, with 87% of the portfolio rated "investment grade" at the end of 2014, almost all of the tranches in which Dexia invested being senior level.

### Dexia Group commitments on monoliners

Inherited from Dexia's activity in the United States on the US municipalities sector and on ABS, traditionally enhanced, the Dexia portfolio guaranteed by monoliners amounted to EUR 17.6 billion (notional amount) as at 31 December 2014. 83% of the underlying assets are "investment grade".

With the exception of the Assured Guaranty group, whose activity is ongoing and which enhances more than 46% of the guaranteed portfolio, the other monoliners are in run-off.

In general, monoliners have put various mechanisms in place, such as commutations, court actions with the originators of securitisations in the United States or securities repurchases to consolidate their solvency and to be in a position to fulfil their obligations as insurers.

With the exception of FGIC and Ambac's Segregated Account, all the credit enhancers continue to pay insurance indemnities in full and without delay in accordance with contractual conditions. FGIC and Ambac's Segregated Account pay a part of the indemnities due.

The year 2014 was marked by negative developments in relation to Puerto Rico. Although the accumulated exposure of credit enhancers to Puerto Rico is high, no major liquidity problems are to be foreseen for these counterparties, an opinion recently shared publicly by Moody's.

### Dexia Group commitments on financial institutions

Dexia's commitments on financial institutions amounted to EUR 27.3 billion as at 31 December 2014. 51% of these are bonds and covered bonds. The balance consists of loans to financial institutions, exposures associated with Repo and derivatives transactions.

Commitments on financial institutions were up 5.8% over the year. In fact, the natural amortisation of the bond portfolio was offset by the increase of exposures associated with Repo transactions with financial institutions. The pace of amortisation of the bond portfolio will remain sustained over coming years, a fifth of the residual commitments having to be redeemed in 2015 and two thirds before 5 years.

Dexia's exposure is concentrated 17% in the United States and 69% in Europe, principally in Spain (27%), Germany (15%), France (12%), the United Kingdom (6%) and Belgium (4%).

More than 93% of the portfolio is rated "investment grade". No new defaults were observed in 2014 on this portfolio and the portfolio's credit quality remained stable.

In Southern Europe, the situation of Spanish banks improved overall. In addition, Dexia's exposure to the Spanish financial sector is for the most part in covered bonds. Dexia's exposure to the Portuguese financial sector was almost fully redeemed in the second half of 2014.

In Europe, the year 2014 was marked by the comprehensive assessment made by the European Central Bank, the aim of which was to assess the quality of assets held by European banks and their ability to withstand stress situations. In the end, only 25 banks failed, essentially non-systemic banks, in Italy and Greece (to which Dexia is respectively exposed either very little or not all).

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

On 1 March 2015, under the Federal Act on the Recovery and Resolution of Banks (Bundesgesetz über die Sanierung und Abwicklung von Banken), the Austrian Financial Market Authority (FMA-Finanzmarktaufsicht) issued a decree initiating the resolution of Heta Asset Resolution AG, previously Hypo Alpe Adria Bank International AG, responsible for managing the legacy assets of Hypo Alpe Adria in run-off, and imposed a temporary moratorium until 31 May 2016 on a substantial part of the debt of the entity (capital and interests).

Dexia notes this decision and states that the nominal value of its exposure to Heta Asset Resolution AG, affected by this moratorium, amounts to EUR 395 million. This exposure has the benefit of a guarantee granted by the State of Carinthia. This outstanding is booked on Dexia Kommunalbank Deutschland AG's balance sheet, it being specified that it is not included in the cover pool of Dexia Kommunalbank Deutschland AG.

The Dexia Group is currently studying the appropriate actions to be taken with regard to the decision of the FMA. Nevertheless, as a precaution and following the announcement on 1 March 2015, the Group will book a specific impairment on its exposure in the first quarter 2015, the amount of which will be determined in light of further developments of the situation.

### Asset quality

In 2014, impaired loans and advances to customers fell by 16.5% to EUR 1,162 million. This fall was accompanied by a reduction of 43.3% in specific impairments on loans and advances to customers, which amounted to EUR 309 million. This downward trend is explained in particular by:
- sales, accompanied by reversals of impairments, on the US local public sector (particularly on the city of Detroit and the Commonwealth of Puerto Rico) as well as the securitisation portfolio;
- restructuring and sales of "corporate" and project finance assets in the United States, Italy and the United Kingdom, also resulting in a reduction of impaired assets and impairments;
- a return to healthy debt of several counterparties in Spain and the United States, in the project finance and corporate sectors.

This deccrease is nonetheless tempered by an increase in impairments on certain files associated with corporates and project finance in France, Australia and Portugal.
These sales of highly impaired exposure mechanically resulted in a fall of the coverage ratio, which was at 26.6% at the end of December 2014.
To facilitate monitoring and comparison between the different European banks, the European Banking Authority (EBA) harmonised the definition of Non-Performing Exposure (NPE) and Forbearance.
Non-performing exposure amounts to outstanding unpaid for more than 90 days for which the Group thinks that the counterparty is unable to repay without the implementation of guarantees. The Dexia Group has identified exposures corresponding to the said EBA definition and published the amount of its non-performing exposure.
The definition of forbearance groups together facilities granted by banks to counterparties experiencing or about to experience financial difficulties in dealing with their commitments (facilities which banks would not otherwise have granted). Forbearance is applied on healthy or safe assets or on non-performing assets. As at 31 December 2014, 133 contracts, corresponding to 43 counterparties, were considered forborne, for an amount of outstanding at EUR 1 billion.

**ASSET QUALITY**

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Impaired loans and advances to customers | 1,391 | 1,162 |
| Specific impairments on loans and advances to customers | 545 | 309 |
| Coverage ratio (1) | 39.2% | 26.6% |

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

## Market risk

To ensure that market risk is monitored effectively, Dexia has developed a framework based on the following components:
• a comprehensive system for risk measurement, built on historical and probability models
• a structure of limits and procedures governing risk-taking, consistent with the end-to-end risk measurement and management process

### Risk measurement

The Dexia Group mainly assesses market risk using a combination of two measurement indicators, resulting in a limit-based risk management framework.
• Value at Risk (VaR) is a measure of the expected potential loss with a 99% confidence interval and for a holding period of ten days. Dexia uses a number of VaR approaches to measure the market risk inherent in its portfolios and activities:
– Directional interest rate risk and foreign exchange risk are measured via a parametric VaR approach using a methodology based on the assumed normal distribution of yields relating to various risk factors.
– Credit spread risk (also known as specific interest rate risk) and other risks in the trading portfolio are measured using a historical VaR approach. Historical VaR is a VaR whose distribution is constructed by applying historical scenarios for the relevant risk factors associated with the current portfolio.
• Limits in terms of position, maturity, market and authorised products are put in place for each type of activity, ensuring consistency between overall value limits and operational thresholds used by front office.

Stress testing completes the risk management system by exploring a range of events outside the probability framework of VaR measurement techniques. The assumptions underlying stress test scenarios are regularly revised and updated. The results of consolidated stress tests and the corresponding analysis are presented quarterly to the Market Risk Committee.

### Exposure to market risk

#### Value at Risk

The table below shows the details of VaR used for market activities, not including the bond portfolio. At the end of December 2014, total VaR consumption stood at EUR 13.3 million, compared with EUR 12.2 million at the end of 2013, a level lower than the global limit of EUR 40 million.

The Dexia trading portfolio is composed of two groups of activity:
• transactions initiated by financial instrument trading activities until the date on which the Group was placed in orderly resolution, mostly covered back-to-back;
• transactions intended to hedge transformation risks on the balance sheet, and in particular the liquidity gap on currencies, but for which there is no documentation of an accounting hedge relationship under IFRS standards.

The main risk factors of the trading portfolio are:
• cross currency basis swap risk,
• basis risk BOR-OIS.

**VALUE AT RISK OF MARKET ACTIVITIES MARKET**

| (in EUR million) | | | 2014 | | |
|---|---|---|---|---|---|
| VaR (10 days, 99%) | Interest and FX (Banking and Trading) | Spread (Trading) | Other risks | Total | Limit |
| Average | 6.7 | 5.3 | 0.2 | 12.1 | 40 |
| End of period | 8.3 | 4.7 | 0.3 | 13.3 | |
| Maximum | 8.3 | 5.8 | 0.4 | 13.3 | |
| Minimum | 5.4 | 4.7 | 0 | 11.0 | |

| (in EUR million) | | | 2013 | | |
|---|---|---|---|---|---|
| VaR (10 days, 99%) | Interest and FX (Banking and Trading) | Spread (Trading) | Other risks | Total | Limit |
| Average | 2.6 | 7.2 | 0.4 | 10.2 | 40 |
| End of period | 6.4 | 5.6 | 0.3 | 12.2 | |
| Maximum | 7,8 | 8.4 | 0.7 | 14.9 | |
| Minimum | 0.7 | 5.6 | 0.2 | 8.2 | |

### Sensitivity of portfolios classified as "Available For Sale" to the evolution of credit spreads

The sensitivity of the AFS reserve for available-for-sale portfolios to an increase in credit spreads is closely monitored. At the end of 2014, this sensitivity was EUR -20 million for a one basis point increase in credit spreads. The reduction of sensitivity compared to the end of 2013 is essentially due to the reclassification of illiquid assets to the category "Loans and receivables" on 1 October 2014.

Conversely, since interest rate risk is hedged, sensitivity to interest rate fluctuations is very limited.

# Transformation risk

Dexia's asset and liability management policy aims to reduce liquidity risk as far as possible and limit exposure to interest rate and foreign exchange risk.

## Management of interest rate and exchange rate risk

Dexia's balance sheet management policy aims to minimise volatility in the Group's results.

### Measurement of interest rate risk

Interest rate risk is measured via sensitivity. Risk sensitivity measures reflect balance sheet exposure to a 1% movement on the yield curve. The main indicator used to determine limits and to measure and monitor risk is the sensitivity of the net present value of accrued interest positions to interest rate fluctuations.
The overall and partial sensitivities by time bucket are the main risk indicators used by the ALM risk committees, organised within the Management Board, to manage risk. The Dexia Group's structural interest rate risk is mainly concentrated on European long-term interest rates, and arises from the imbalance between Dexia's assets and liabilities after hedging for interest rate risk.

The sensitivity of long-term ALM was EUR -14.2 million as at 31 December 2014, compared with EUR +10.5 million as at 31 December 2013. This is in line with the ALM strategy, which seeks to minimise P&L volatility.

| (in EUR million) | 2013 | 2014 |
|---|---|---|
| Sensitivity | +10.5 | -14.2 |
| Limit | +/-96 | +/-80 |

### Measurement of foreign exchange risk

With regard to foreign exchange, the Management Board decides on the policy to hedge the foreign exchange risk generated by the existence of assets, liabilities, income and expenditure in currencies. Also subject to regular monitoring:
- The structural risks associated with the funding of holdings in foreign currencies;
- Elements liable to increase the volatility of the solvency ratios of the Group or its subsidiaries and branches.

Structural exchange positions are subject to strict limits below which a systematic hedge policy is applied.

## Management of liquidity risk

### Dexia's policy on the management of liquidity risk

Dexia's main objective is to manage the liquidity risk in euro and in foreign currencies for the Group, as well as to monitor the cost of funding so as to minimise volatility in the Group's results.

The liquidity management process aims to optimise the coverage of the Group's funding requirements taking into account the constraints to which it is exposed. Funding requirements are assessed prudently, taking into account existing transactions as well as planned on- and off-balance-sheet forecasts.

The Group's liquidity reserves consist of assets eligible for the central bank refinancing facilities to which Dexia has access.

To manage the Group's liquidity situation, the Management Board regularly monitors the conditions for funding transactions on the market segments on which Dexia operates.

It also guarantees proper execution of the programmes put in place. To that end, a specific and regular mode of information has been introduced:
• Daily and weekly reports are provided to members of the Management Board, the State shareholders and guarantors and the regulatory authorities. This information is also used by all parties involved in managing the Dexia Group's liquidity position – namely the Finance and Risk teams in charge of these topics, and the Funding and Markets activity line;
• The 12-month funding plan is sent monthly to the State shareholders and guarantors, central banks and regulatory authorities;
• Twice-per-week conference calls are held with the European, French and Belgian regulatory authorities and central banks.

### Measurement of liquidity risk

Liquidity indicators have evolved to take into account the constraints affecting Dexia's liquidity position. The four-week liquidity ratio, comparing the liquidity reserves with the Group's liquidity requirements under various scenarios, is supplemented by the maximum authorised amount of guaranteed issues and the maximum limit set by Banque de France on its emergency liquidity assistance (ELA).
Dexia's liquidity risk is also managed via the liquidity ratios monitored by its various regulators – the National Bank of Belgium (NBB) for Dexia and France's Prudential Supervision and Resolution Authority (ACPR) for Dexia Crédit Local:
• The NBB ratio to which Dexia is subject, establishes an institution's liquidity position by comparing required liquidity with available liquidity at one week and one month[(1)]. Monitoring of this ratio was discontinued in June 2014.
• The ACPR ratio to which Dexia Crédit Local is subject is defined as the ratio of cash to liabilities over a forecast one-month period; the ratio thus calculated must always be above 100%[(2)].

Over 2014, the Dexia Group respected the various liquidity ratios to which it is subject.

Since June 2014, the Dexia Group has provided the National Bank of Belgium with a monthly estimate of the Liquidity Coverage Ratio (LCR). This ratio is scheduled to enter into force in October 2015.

## Operational risk and IT systems security

### Dexia's policy for the management of operational risk and IT systems security

Dexia's policy regarding operational risk management consists of regularly identifying and assessing the various risks and existing controls to check that the predefined level of tolerance for each activity is respected. If predetermined limits are exceeded, the governance in place must ensure that corrective action is quickly taken or that improvements are put in place to bring the situation back within acceptable parameters. This system is supplemented by a prevention policy covering in particular information security, business continuity and, when necessary, the transfer of certain risks via insurance.

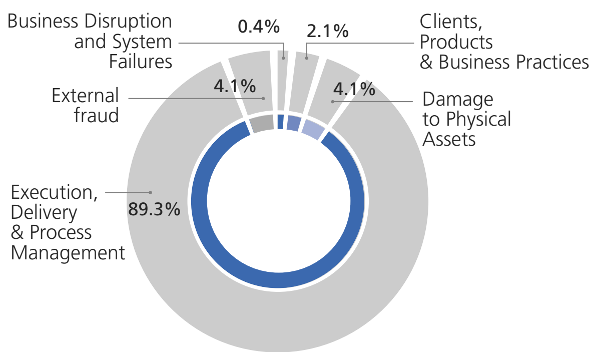
### Risk measurement and management

The company project identifies operational risk management as one of the pillars of Dexia' strategy in the context of its orderly resolution.

The monitoring of operational risk is done within the framework of the standard approach determined by the Basel regulatory methodology. Under this methodology, information relating to the operational risk must be transferred to the managers in charge of monitoring this risk, and the tasks identified as critical must be monitored.

The operational risk management system relies on the following components.
• Operational risk database: the systematic capture and monitoring of operational incidents is one of the most important requirements of the Basel Committee. Fulfilling its regulatory obligations, Dexia has put a system in place to list operational incidents and to gather specific data. The information gathered enables it to improve the quality of its internal control system.

Over the last three years, the breakdown of total losses between the standard categories of incidents is as follows:




The classification of the various categories of operational incidents was modified as a result of the reduction of the scope of the Dexia Group.

For example, internal fraud, which is more typical for retail and private banking activities, has almost disappeared following the disposal of the Group's retail banking businesses. "Execution, delivery and process management" remains the most dominant category, though there have been very few major events since 2010.

The other categories account for few events and represent low loss levels. The main incidents are subject to corrective actions approved by the Group's management bodies.
• Risk self-assessment and control: as well as building a history of losses, Dexia's exposure to key risks is determined via an annual risk mapping exercise. All Dexia Group entities conduct risk self-assessment exercises that take into account existing controls, thus providing senior management with an

*(1) Circular CBFA 2009-18-1 of 8 May 2009.*
*(2) Instruction n° 2009-05 of 29 June 2009 relative to the standard approach of liquidity risk.*

overall view of most areas of risk within the Group's various entities and businesses. Actions to limit risk may be defined where applicable.

• Definition and monitoring of action plans: actions are defined in response to major incidents, deficient controls or important risks identified. Regular monitoring is carried out by the operational risk management function. This process allows the internal control system to be constantly improved and risks to be reduced appropriately over time.

• Scenario analysis and Key Risk Indicators (KRI): two specific elements of the operational risk management mechanism were developed in 2014: scenario analysis relating to internal fraud by the misappropriation of means of payment and the introduction of Key Risk Indicators (KRI) on the main risks identified in the operational risk mapping.

• Management of information security and business continuity: the information security policy and associated instructions, standards and practices are intended to ensure that Dexia's information assets are secure. All activities take place in a secure environment. The various activity lines establish impact analyses for vital activities in the case of disaster or interruption. They define plans for the recovery. Updating of activity continuity procedures takes place at least once a year. On the basis of regular reports, the Management Board signs off recovery strategies, residual risks and action plans with the aim of delivering continuous improvement.

Dexia applies the Basel standard approach to calculate regulatory capital for operational risk management.

The table below shows the capital requirements determined by the standard approach computation with a conservative buffer for 2014:

| (in EUR million) | 2013 | 2014 |
|---|---|---|
| Capital requirement | 202 | 80 |

### Management of operational risk during the period of resolution

In 2014, the Dexia Group continued to adjust its structure and its operational processes in line with its orderly resolution plan. This phase is by nature liable to give rise to operational risks, particularly as a result of factors such as the departure of key staff members, potential staff demotivation, and process changes when applications need to be replaced or duplicated.

The key components of the management system described above continue to be applied during this period. Specifically with regard to self-assessment of risks and controls, Dexia was called upon to assess the risk of discontinuity associated with the factors referred to above.

Furthermore, the separation of Dexia from Société de Financement Local (SFIL), finalised in 2014, is subject to specific analysis and monitoring, particularly concerning the duplication of applications and the management of access.

Finally, Dexia has taken action to prevent psycho-social risks and provide staff with support in connection with such risks.

## Stress tests

Taking into account the orderly resolution plan, Dexia has carried out Group-wide stress tests in a manner consistent with its risk management process. The purpose of these stress tests is to measure the sensitivity of the Group in the event of adverse shocks, in terms of expected losses, weighted risks, liquidity and capital requirements.

In 2014, Dexia performed a series of stress tests (including sensitivity analysis, scenario analysis and the assessment of potential vulnerabilities) based on macroeconomic scenarios reflecting crisis situations. In addition to regular stress tests covering market and liquidity risk in accordance with regulatory requirements, in 2014 Dexia also carried out stress tests covering the majority of its credit portfolios. In particular, within the framework of Pillar 1 of Basel, the credit exposure covered by internal rating systems is tested for sensitivity and performance under adverse macroeconomic scenarios.

Finally, the comprehensive assessment by the European Central Bank, the main conclusions of which are described in the chapter entitled "Highlights" of this annual report, integrated stress test under various scenarios.

## Application of and changes in the regulatory framework

Relying on all the mechanisms put in place to meet the requirements arising from the Basel regulations and subsequent changes to those regulations, the Dexia Group did everything to achieve compliance with the new Basel III regulations when they entered into force on 1 January 2014.

*The prudential and regulatory developments are detailed in the chapter "Highlights" of this annual report.*

## Litigations

Like many financial institutions, Dexia is subject to a number of regulatory investigations and is named as a defendant in a number of lawsuits, including class action suits in the United States and Israel. Moreover, the reduction of the Group's scope, along with some measures implemented within the framework of Dexia's resolution, has raised questions from some of its stakeholders or counterparties. These litigations are referred to below. Unless otherwise indicated, the status of the main disputes and investigations summarised below is as at 31 December 2014 and based on information available to Dexia at that date.

On the basis of the information available to Dexia at that date, other disputes and regulatory investigations in which an entity of the Dexia Group is named as a defendant and regulatory investigations impacting the Group entities are either not expected to have a material impact on the Group's financial position or it is too early to accurately assess whether they may have such an impact.

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The consequences, as assessed by Dexia in accordance with the information available to it at the aforementioned date, of the principal disputes and investigations liable to have a material impact on the Group's financial position, performance or activities are reflected in the Group's consolidated financial statements. Subject to the general terms and conditions of professional indemnity and Directors' liability insurance policies taken by Dexia, any negative financial consequences of some or all of these disputes and investigations may be covered, in full or in part, by those policies and, subject to the insurers in question accepting these risks, may be offset by any payments that Dexia may receive under the terms of those policies.
In addition, the Group has set aside provisions in respect of certain of these risks. Due to the nature of these proceedings, any indication as to whether provisions have been set aside in connection therewith or their subject matter and, if so, the amount of any such provisions, could seriously prejudice Dexia's legal position or defence in connection with those legal actions or any related proceeding.

## Dexia Nederland BV

### General background

Difficulties linked to share leasing activities inherited from Banque Labouchère (now Dexia Nederland BV, hereinafter referred to as DNL) came to light when the Amsterdam stock market fell sharply in late 2001. The value of the securities used as collateral against the loans granted by the bank at that time proved insufficient for a large number of contracts, thus ending with a residual debt instead of the gain for which they had initially hoped.
As a result, Dexia's Dutch subsidiary is still involved in major litigation involving a number of legal proceedings brought by lessees who had entered into share leasing agreements. However, given developments in case law pertaining to certain aspects of these cases, DNL has tried for a number of years to propose out-of-court settlements to the lessees (independently of the overall settlement offered in April 2005 within the framework of a national mediation process led by Wim Duisenberg, former governor of the Dutch central bank, for which lessees had the opportunity to sign up).
Over the years, DNL closed the ongoing legal proceedings and litigation with the majority of lessees. At the end of 2014, a limited number of lessees (approximately 15,000) continued to object to current indemnity scheme resulting from case law in the Amsterdam Court of Appeal and the Supreme Court. They submitted the following points of dispute to the Supreme Court: failures in investment technique, the goal of the means, dispute with regard to the purchase or not of shares. In 2014, no judgment or major order was passed which differed fundamentally from the decisions of the Supreme Court (2009). In the event of difference, orders are submitted to the Supreme Court for its opinion, as was the case in 2014 concerning the role of intermediaries, the date of commencement of the legal interests and the interrupting effect of the Eegalease foundation.
In a series of cases relating to due diligence, DNL applied for a declarative judgment and confirmation that the parties no longer request anything of each other. The first judgments were passed on February 2015, and the declaration was granted. In 2014, DNL concluded an out-of-court settlement with approximately 900 borrowers.

### Issues raised by litigation

#### Due diligence cases

As stated in Dexia's previous annual reports, on 5 June 2009 the Dutch Supreme Court issued an important judgment concerning share leasing agreements. Numerous allegations were rejected, including allegations of error, misleading advertising and abuse of circumstances, as well as the applicability of the Dutch Consumer Credit Act. The Supreme Court did, however, rule that the lender ought to have performed due diligence at the time that the share leasing agreements were entered into. In this respect, the Supreme Court made a distinction between two categories of customers: those for whom the agreement in question represented a manageable financial burden and those for whom the agreement represented an unduly heavy financial burden.
Against this backdrop, and as stated in Dexia's previous annual reports, on 1 December 2009 the Amsterdam Court of Appeal passed four detailed judgments setting out exactly how the distinction drawn by the Dutch Supreme Court between the two categories of customers should be applied. Customers claiming to have been placed under an unduly heavy financial burden are required to demonstrate that this is the case. Furthermore, the Amsterdam Court of Appeal ruled that gains on earlier share leasing products should be taken into account when calculating the loss suffered, and that statutory interest to be reimbursed should be calculated with effect from the date on which the agreement in question was terminated.
Shortly after the Amsterdam Court of Appeal passed its judgments, two former customers filed an appeal against two of those judgments. On 29 April 2011, the Supreme Court also confirmed that, where a customer had made gains on a share leasing agreement, those gains should, subject to certain conditions being met, be offset against losses suffered on other such agreements.
The decisions issued by the Amsterdam Court of Appeal and their confirmation by the Supreme Court form the basis of DNL's attempts to reach out-of court settlements.

#### Spousal consent cases

The question of spousal consent upon subscription of the disputed agreements has also been raised in connection with these proceedings. On 28 March 2008, the Dutch Supreme Court ruled that Article 1:88 of the Dutch Civil Code applies to share leasing agreements. Pursuant to this article, written consent is required from the lessee's spouse (or registered partner) when entering into a lease agreement. If such consent is not obtained, the spouse is authorised to cancel the agreement, whereupon all payments made under the agreement must be refunded and any debt to DNL arising from the agreement must be cancelled. However, on 28 January 2011 the Supreme Court ruled that the spouse or partner must cancel the agreement within three years of becoming aware of its existence. However, the question of the nature of the evidence required to demonstrate the spouse's knowledge of the agreement remains unresolved. On 27 February 2012, the Supreme Court ruled that knowledge of the agreement may be presumed where payments under that agreement have been made from a joint account held by both spouses or partners. However, contrary to the judgment issued by the Amsterdam Court of Appeal, the Supreme

Court also ruled that spouses or partners are still entitled to (try to) demonstrate to the court that they were not aware of the existence of such an agreement.

**Number of law suits in progress**

At 31 December 2014, DNL was still involved in some 1,460 civil cases (against 550 at the end of 2013). The increase in 2014 results from the application for a declarative judgment made by DNL. The majority of other cases have nonetheless been suspended.

**Klachteninstituut Financiële Dienstverlening (KiFiD)**

At the end of 2014, 57 cases related to share leasing were still being considered by Klachteninstituut Financiële Dienstverlening (KiFiD), the Dutch institution tasked with handling complaints concerning financial services. During 2014, the majority of cases with the KiFiD had been suspended. They relate principally to due diligence.

## Financial Security Assurance

Financial Security Assurance Holdings Ltd (now Assured Guaranty Municipal Holdings Inc. and hereinafter referred to as "FSA Holdings") and its subsidiary, Financial Security Assurance Inc. (now Assured Guaranty Municipal Corp. and hereinafter referred to as "AGM"), both former subsidiaries of the Dexia Group, together with many other banks, insurance companies and brokerage firms, were investigated in the United States by the Antitrust Division of the US Department of Justice (DoJ), the US tax authorities and/or the US Securities and Exchange Commission (SEC) on the grounds that allegedly they had breached laws and regulations in connection with bidding on and entering into municipal derivatives transactions, including guaranteed investment contracts (GICs[1]), with municipal bond issuers. A number of US states have also initiated similar investigations.

In addition to the government investigations described above, a large number of banks, insurance companies and brokerage firms, including in some cases FSA Holdings, Dexia and/or AGM, were named as defendants in various civil proceedings relating to municipal GICs and other transactions entered into with local authorities. These civil claims are based on alleged breaches of antitrust laws and other laws and regulations. Almost all these ongoing civil proceedings have been consolidated for pre-trial purposes before the US District Court for the Southern District of New York.

In addition to its direct exposure as defendant in some of these legal actions, under the terms of the sale of FSA Holdings and AGM to Assured Guaranty Ltd, Dexia retained the Financial Products business and agreed to indemnify AGM and Assured Guaranty Ltd for any losses related to this business that these companies may incur as a result of the investigations and lawsuits referred to above.

*(1) The guaranteed investment contracts (GICs) that are the subject of these investigations and lawsuits were issued by subsidiaries of FSA Holdings in exchange for funds invested by US municipalities, or in favour of issuers of securitised debt. GICs, whose terms and repayment conditions vary, entitle their holders to receive interest at a guaranteed fixed or floating rate, as well as recouping their initial investment. The payment of principal and interest on the GICs was guaranteed by AGM and remains so subsequent to that company's acquisition by Assured Guaranty Ltd.*

On 8 January 2014, the SEC concluded its investigation into FSA Holdings and, based on the information available to it at that date, found that there were no grounds for it to continue its investigations into FSA Holdings.

Next to these developments, on 27 July 2010 the DoJ indicted the former AGM employee Steven Goldberg, together with two former colleagues of Goldberg at his previous employer, in the bid-rigging case. The DoJ did not charge either AGM or any other entity in the Dexia Financial Products Group in connection with its indictment of Goldberg. Goldberg was found guilty of fraud on 11 May 2012, and received a custodial sentence and a fine at the end of October 2012. However, on 26 November 2013 the US appellate court overturned the verdict against Goldberg and freed him. The DoJ sought a rehearing in order to reverse that decision, but the U.S. Appellate Court denied the DoJ's request.

In spite of some recent developments, at present Dexia is not able reasonably to predict the duration or outcome of the various investigations and legal proceedings in progress, or their potential financial repercussions.

## Alleged shortcomings in respect of financial disclosures

Dexia has been named as a defendant in a small number of cases alleging shortcomings in its financial disclosures. Dexia strongly opposes the claims put forward in these cases. Regarding the Ricaud case, the claim was dismissed by the Court in Le Havre in November 2014. No appeal has been lodged. This case is now closed.

## Dexia Crediop

Like other Italian banks, Dexia Crediop is involved in legal proceedings in Italy and in the UK regarding hedging transactions (which required recourse to derivative instruments such as swaps) entered into in connection with debt restructuring and/or funding transactions with a dozen Italian regions, cities and provinces.

In the lawsuit between Dexia Crediop and the Province of Pisa, the Italian Supreme Court declared the appeal filed by the Province against the decision of the Council of State of 27 November 2012 inadmissible. Consequently, this ruling definitively recognises the earlier ruling of the Council of State, which confirmed the validity of the derivative instruments concluded between the two parties. On 20 October 2014 Dexia Crediop and the Province of Pisa entered into a settlement agreement according to which, inter alia, the Province of Pisa acknowledged that the swap agreement is legal, valid and binding ab origine, and paid interest on delayed payments. As a result, the parties terminated the UK proceedings by Court approval on 28 October 2014.

On 16 July 2013, the High Court of Justice in London confirmed its position on the validity and enforceability of interest rate swaps entered into by the Region of Piedmont. In a separate ruling on 30 July 2013, the Court ordered the Region of Piedmont to pay the amounts due under the interest rate swaps in question, plus interest and legal costs. On 6 September 2013, the Region of Piedmont filed with the Court of Appeal of London an application to be authorised to appeal against the abovementioned decisions of the High

Court of Justice. On 9 October 2014 the Court of Appeal refused Piedmont's request for reconsideration of permission to appeal.
With respect to the City of Messina, on 23 October 2014, the Italian Supreme Court confirmed that Italian courts (both administrative and civil courts) do not have locus standi to decide on disputes relating to swap agreements entered into by the City. Rather, English courts have jurisdiction on such disputes.
With respect to three transactions entered into with local authorities, criminal charges have been brought against Dexia Crediop and certain of its employees which, if maintained, could also imply administrative liability on the part of Dexia Crediop for failing to take appropriate steps to prevent its employees from committing the alleged crimes. The employees in question and Dexia Crediop deny any charges brought against them in this regard. On 14 January 2013, the criminal charges for alleged fraudulent behaviour brought by the Region of Tuscany were dismissed, and this was confirmed by the court in 2014. With respect to the Region of Puglia, on 14 October 2014, the Judge at the Preliminary Hearing fully discharged both Dexia Crediop and its former employee from the accusation of alleged fraudulent behaviour brought by the Public Prosecutor.
Notwithstanding the recent favourable developments in the above litigations, at present Dexia Crediop is not able reasonably to predict the duration or outcome of these proceedings, or their potential financial repercussions.

## Kommunalkredit Austria / KA Finanz AG

In November 2008, the Republic of Austria took control of Kommunalkredit Austria AG, in which Dexia Crédit Local (DCL) held a 49% interest, alongside majority shareholder ÖVAG. To facilitate this deal, DCL agreed to convert EUR 200 million of its exposure to Kommunalkredit Austria AG into participation capital, considered under Austrian banking law as Tier 1 capital.
In 2009, when Kommunalkredit Austria was split, the participation capital, amounting to EUR 200 million, was allocated as follows:
(i) EUR 151.66 million to KA Finanz AG (formerly known as Kommunalkredit Austria AG) (the defeasance entity which was then constituted), and
(ii) EUR 48.34 million to Kommunalkredit Austria New ("KA New")
Following KA Finanz AG's decision on 25 April 2012 to write-off the accumulated losses by a reduction to zero of DCL's participation capital, with retroactive effect to 31 December 2011, DCL commenced proceedings in Vienna against KA Finanz AG to contest this decision. These proceedings are ongoing and currently pending before the Austrian Supreme Court.
DCL also commenced proceedings against KA Finanz AG and KA New in Vienna to contest the terms of the 2009 split of Kommunalkredit Austria and in particular the division of the participation capital held by DCL between the two entities resulting from the split. These proceedings are ongoing.
At present Dexia is not able reasonably to predict the duration or outcome of these proceedings, or their potential financial repercussions.

## Structured loans litigations

Dexia Crédit Local (DCL) is involved in a number of cases brought by local authorities to which it had granted structured loans. As at 31 December 2014, 221 clients had issued summonses against DCL in connection with structured loans, of which 184 concern structured loans held by the Société Française de Financement Local (SFIL), parent company of the Caisse Française de Financement Local (CAFFIL), 22 concern structured loans held by DCL and 15 concern both institutions. It must be noted that DCL did not give any representation or warranties on the loans of CAFFIL at the time of the sale of SFIL in January 2013. Nevertheless, DCL, as legal representative of CAFFIL until the time of the sale, remains responsible for any damages granted to a borrower due to the non-fulfilment of its contractual or regulatory obligations relating to the marketing by DCL of the structured loans held by CAFFIL at the time of the sale.
On 8 February 2013, the Superior Court (*Tribunal de Grande Instance*) of Nanterre issued rulings on the claims brought against Dexia by the Département de Seine-Saint-Denis in connection with three structured loans.
The Superior Court of Nanterre considered that faxes preceding the signature of the final agreements could be described as "loan agreements", and that failure to state the Effective Annual Percentage Rate (EAPR) on those faxes meant that the statutory interest rate was applicable.
Dexia Crédit Local appealed these rulings and CAFFIL submitted an application to intervene to the Appeal Court of Versailles, on 5 April 2013.
This case law was followed by the Superior Court of Nanterre and three rulings were issued, during 2014, in line with the ruling of 8 February 2013. Both DCL and CAFFIL have appealed these decisions and the cases are pending before the Court of Appeal in Versailles.
The loans referred to in the said decisions fall within the scope of the disposal of the SFIL and, if confirmed, these rulings would have no financial impact for the Dexia Group, as the assets sold are now borne by the CAFFIL.
In view of the risk which might arise with the generalisation of the said case law, the French Government intervened strongly and the French Parliament passed Law 2014-844 on 29 July 2014 in relation to the securitisation of structured loan agreements subscribed by legal entities under public law. The text specifies the conditions of validity of interest stipulations contained in any document establishing a structured loan agreement concluded between a credit institution and a legal entity under public law. It thus secures the structured loans contested in court for the absence of EAPR in the fax or the lack of communication of the rate and the term.
At the same time, the French Government also gave impetus to the implementation of a support fund created by article 92-I of the 2014 Finance Act. Endowed with EUR 100 million per annum for a maximum period of fifteen years, it is intended for local authorities, their groupings and local public institutions as well as authorities overseas and in New Caledonia which subscribed before 2014 to structured loans in particular. The mechanism relates to the most sensitive loans.
This fund has been operational since November 2014 and is aimed at providing the borrowers concerned with aid towards the early redemption of these loans. This aid is calculated on the basis of indemnities for early redemption due. It cannot

exceed 45% of their amount. Access to this fund is also conditional on the borrower waiving any legal action in relation to the loans for which financial aid is requested.
On 24 February 2015, the French Government declared that the size of the fund would be doubled for local authorities following the deterioration of current market conditions for certain loans. The aid envelope proposed for public hospitals rose from EUR 100 million to EUR 400 million.
Beneficiaries must lodge an aid application with the State representative in the region concerned or in the overseas territory before 30 April 2015.
Dexia Kommunalbank Deutschland, a subsidiary of DCL, was also summonsed in a small number of litigations relating to structured loans.

## Dexia Israel

In May 2002, a group of minority shareholders brought a class action against Dexia Crédit Local (DCL) concerning its acquisition of shares held by the State of Israel and certain banks when Dexia Israel (DIL) was privatised. The plaintiffs alleged a breach of corporate law which would have required it to make an offer for all the shares in DIL.
After eleven years of proceedings, the parties finally entered into a mediation process at the request of the District Court and reached an agreement on 14 December 2014 to settle this dispute and also a derivative claim filed in July 2012 by the same minority shareholders, on behalf of DIL, against DCL and 20 current and past directors of DIL, to claim, inter alia, reimbursement of dividends allegedly overpaid by DIL to DCL since the latter acquired its shareholding. These proceedings are ongoing to render this agreement effective. The financial impact on DCL should be limited to NIS 25 million in aggregate.
In December 2011, nine individual shareholders filed another class action against DCL and the Union of Local Authorities in Israel (ULAI), in their capacity as shareholders, and against Dexia Israel. This action is based, inter alia, on an alleged failure to complete the process of equalising the rights attached to shares in Dexia Israel, which the applicants claimed was detrimental to them. In January 2013, the District Court of Tel Aviv decided to stay the proceeding until such time as a final judgment (including on appeal) has been returned in the first class action.
On 7 October 2014, a new derivative action was brought against DIL by three shareholders (including one of the authors of the class action of 2011) against DCL, DIL's Chief Executive Officer and 13 of DIL's current and former directors. The claim relates to an alleged boycott of local authorities by DIL in the production of loans in the provinces of Judea and Samaria.
At present Dexia is not able reasonably to predict the duration or outcome of these proceedings, or their potential financial repercussions

## Dexia Sabadell

On 6 July 2012, Banco de Sabadell ("BS") exercised the put option granted by Dexia Crédit Local for the purchase of BS' stake in Dexia Sabadell. The parties disagree on the exercise price of the put. Arbitration proceedings before the International Court of Arbitration in Madrid are ongoing.
At present Dexia is not able reasonably to predict the duration or outcome of these proceedings, or their potential financial repercussions.

## Litigation arising from disposal of the Group's operating entities

Throughout 2014, Dexia continued with its programme of divestment of entities, as laid down in the revised orderly resolution plan, and closed certain divestments during the year.
As is customary in these types of transactions, the share sale agreements in relation to these disposals include representations and warranties, and seller's indemnification obligations subject to the usual restrictions and limitations. Therefore, should a purchaser make a call on the warranty in connection with an issue affecting the purchased entity that originated prior to completion of the sale of the shares in that entity, Dexia may, under the terms of the sale agreement, be required to indemnify the purchaser.
During 2014, some indemnification requests have been made in relation to the disposal of entities. No major evolution has occurred in these files.

# Information on capital and liquidity

The Dexia Group's three strategic objectives at the heart of the Company Project are to protect the Group's capital base, ensure continued access to liquidity for the duration of its resolution process and manage its operational risks.

## Share capital

### Information on Dexia's share capital as at 31 December 2014

As at 31 December 2014, Dexia's share capital came to EUR 500,000,000, represented by 30,896,352,895 shares with no par value, including 1,948,984,474 Class A shares and 28,947,368,421 Class B shares.
In accordance with Article 4 of the articles of association, shares may be held on a registered or dematerialised basis, as selected by their holders, within the legal limits applicable. At the end of the regulatory period for abolishing bearer securities, i.e. 31 December 2013, any bearer shares whose conversion had not been requested were automatically converted into dematerialised securities and recorded in a securities account by the company. A forced sale of securities will be organised in 2015, under the legal conditions applicable, in order to ensure that there are no remaining securities whose holders are still indefinitely unknown. This sale will be announced in a public notice allowing any holders to come forward before it takes place. Further information is available online at *www.dmat.be*.

**Class A shares**
The Class A shares are listed on Euronext Brussels and Paris and the Luxembourg Stock Exchange, with as at 31 December 2014, 275,889,424 registered shares, 1,672,354,826 dematerialised shares and 740,224 (physical) bearer shares. The outstanding bearer shares were automatically converted into dematerialised shares on 1 January 2014 and recorded in a securities account in Dexia's name, in accordance with the Law of 12 December 2013 amending the Law of 14 December 2005 abolishing bearer securities.

**Class B shares**
All the Class B shares, i.e. 28,947,368,421 shares, are registered and are not listed.

### Summary of Dexia warrants as at 31 December 2014

| | Exercise price (in EUR) | Exercise period from | Exercise period to | Number of warrants awarded | Number of warrants exercised | Number of warrants cancelled as void | Number of residual warrants before transfer |
|---|---|---|---|---|---|---|---|
| **Warrants granted in 2005** | | | | | | | |
| "ESOP 2005" Warrants | 16.30 | 30 June 2008 (1) | 29 June 2015 (1) | 9,994,950 | 15,000 | 922,926 | 9,991,281 |
| **Warrants granted in 2006** | | | | | | | |
| "ESOP 2006" Warrants | 16.83 | 30 June 2009 (1) | 29 June 2016 (1) | 9,760,225 | 15,000 | 737,980 | 9,899,471 |
| "ESOP 2006" Warrants (DenizBank) | 18.73 | 15 Dec. 2009 | 14 Dec. 2016 | 235,000 | 0 | 30,987 | 228,878 |
| **Warrants granted in 2007** | | | | | | | |
| "ESOP 2007" Warrants | 21.02 | 30 June 2010 (1) | 29 June 2017 (1) | 10,322,550 | 0 | 493,956 | 10,883,145 |
| **Warrants granted in 2008** | | | | | | | |
| "ESOP 2008" Warrants | 9.12 | 30 June 2011 | 29 June 2018 (1) | 7,093,355 | 0 | 110,906 | 7,553,684 |
| "ESOP 2008" Warrants | 11.44 | 30 June 2012 | 29 June 2018 | 3,466,450 | 0 | 224,660 | 3,531,624 |
| **"FP state guarantee" warrants (2)** | | 11 May 2011 | 11 May 2016 | 2 | 0 | 0 | 2 |

*(1) Except under specific conditions.*
*(2) Relates to the issue, decided by the extraordinary shareholders' meeting on 11 May 2011, of a subscription right (warrant) in favour of the state of Belgium and a subscription right (warrant) in favour of the French state, in relation to the mechanism for repayment of the guarantee granted by the Belgian and French states with regard to Dexia's obligations relating to the Financial Products activities of the FSA Group, within the context of the sale of FSA to Assured Guaranty. For a description of the specific characteristics of these subscription rights, please consult the Board of Directors' special report from 18 March 2011:*
*http://www.dexia.com/FR/gouvernance/conseil_d_administration/rapports_speciaux/Documents/20110418_rapport_actions_de_bonus_FR.pdf.*

### Authorised capital (Article 608 of the Companies Code)

Article 6 of the articles of association states that the amount of authorised capital is at any time equal to the amount of the share capital. As at 31 December 2014, the authorised capital represented EUR 500,000,000. The authorisation to increase the authorised capital granted by the shareholders' meeting on 14 May 2014 is valid for a five-year period ending in 2019.

### Acquisition of own shares (Article 624 of the Companies Code)

The extraordinary shareholders' meeting on 8 May 2013 renewed the authorisation given to the Board of Directors for a new five-year period to:
• acquire the company's own shares on the market or in any other manner, in accordance with the legal conditions applicable and the undertakings made by the company and by the Belgian, French and Luxembourg states to the European Commission, up to the legal maximum number, for a counter-value established in accordance with the legal provisions, and which may not be less than one euro cent (EUR 0.01) per share or more than 10% higher than the share's last closing price on Euronext Brussels;
• authorise the direct subsidiaries within the meaning of Article 627 § 1 of the Companies Code to acquire the company's shares under the same conditions.

The Board of Directors did not however launch a programme to purchase own shares in 2014.
The unchanged balance of the portfolio of own shares as at 31 December 2014 amounted to 324,634 own shares and corresponds to the number of Dexia shares still held by Dexia Crédit Local (direct subsidiary of Dexia within the meaning of Article 627 § 1 of the Companies Code), within the context of a share option plan put in place by that subsidiary in 1999.

## Regulatory capital and solvency

Dexia monitors changes in its solvency using the rules defined by the Basel Committee on Banking Supervision and the European CRD Directive, as well as the ratios set for the Group by the Committee of European Supervisors. The year 2014 was marked by implementation of the Basel III reform, a consequence of adoption of the texts of the CRD IV Directive in Europe in 2013.
The passage from Basel II to Basel III was reflected from 1 January 2014 by:
• replacement of the Core Tier 1 ratio by the Common Equity Tier 1 or CET1 ratio, the latter being the ratio of the amount of Tier 1 equity to total weighted risks;
• redefinition of the Tier 1 ratio, being the ratio of the amount of regulatory capital in the strict sense including hybrid Tier 1 capital to total weighted risks;
• replacement of the Capital Adequacy ratio (CAD) by the Total Capital ratio, the latter being the ratio of total regulatory capital to total weighted risks as defined by CRD IV.

### Regulatory capital

The regulatory capital can be broken down as follows:
• Common Equity Tier 1 capital, consisting of regulatory capital including share capital, premiums, retained capital including profits for the year, gains and losses directly recognised in equity (revaluation of financial assets available for sale, revaluation of cash flow hedge derivatives and translation adjustments), the eligible amount of non-controlling interests after deduction intangible assets, goodwill, accrued dividends, own shares, the amount exceeding thresholds provided with regard to deferred tax assets and for holding shares and interests in credit or financial institutions and elements subject to prudential filters (own credit risk, Debit Valuation Adjustment, cash flow hedge reserve), possibly adjusted for prudent valuation;
• Regulatory capital in the strict sense including hybrid capital (Tier 1 Capital) including regulatory Tier 1 capital and hybrid capital securities;
• Additional Tier 2 capital which includes the eligible portion of long-term subordinated debt as well as surplus provisions on the level of expected losses, reduced by the surplus amount of thresholds provided with regard to holding subordinated debt issued by financial institutions.

In accordance with regulatory requirements and applicable transitional provisions:
• Gains and losses directly recognised in equity as revaluation of non-sovereign bonds[1] classified as "available for sale" (AFS) are progressively taken into consideration over a period of five years from 1 January 2014 at 20% per annum cumulatively;
• Gains and losses directly recognised in equity as revaluation of shares classified as "available for sale" are progressively taken into consideration in Tier 1 capital over a period of five years at 20% per annum from 1 January 2014. However gains and losses directly recognised in equity are excluded from the transitional provisions in 2014;
• Non-controlling interests are partially eligible for Tie 1 capital; their limited inclusion is the object of transitional provisions;
• Certain adjustments on subordinated debts and debts must be taken into consideration in the calculation of capital in order to reflect the loss-absorption characteristics of these instruments.

*(1) The National Bank of Belgium (NBB) and the French "Autorité de Contrôle Prudentiel et de Résolution" (ACPR) have confirmed that the rules applicable to Dexia 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. For both Dexia Group and Dexia Crédit Local, the AFS reserve on sovereign securities does not have to be taken into account for the calculation of the solvency ratios and the AFS reserve relating to non-sovereign exposures has to be deducted from the regulatory capital up to an amount of 20% per annum.*

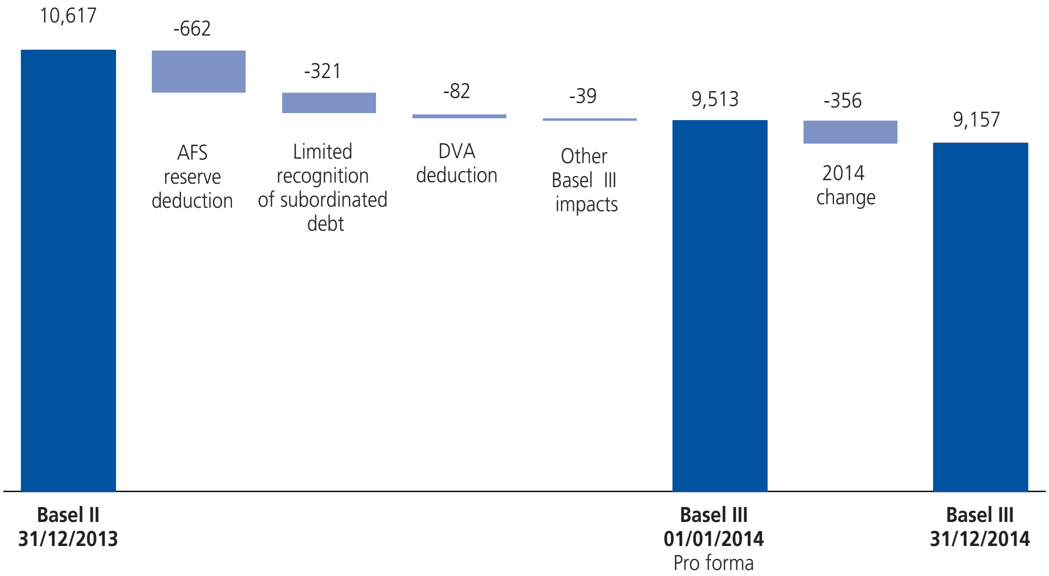
With the adoption of Basel III on 1 January 2014, Dexia Group's regulatory capital decreased by EUR -1.1 billion, mainly due to following factors:

- 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 Valuation Adjustment (DVA), for EUR -82 million.

These elements are illustrated in the graph below.

### Main impacts of the first-time application of the CRD IV / CRR on Dexia's regulatory capital

(in EUR million)




At the end 2014, Dexia Group's Total Capital amounted to EUR 9,157 million, compared to EUR 10,617 million as at 31 December 2013. This EUR -1,460 million decrease can mainly be explained by the impact of the first-time application of the Basel III standards and the loss recorded over the year.

Common Equity Tier 1 followed a similar trend and was at EUR 8,754 million as at 31 December 2014, compared to EUR 10,054 million as at 31 December 2013.

| **REGULATORY CAPITAL** (in EUR million) | **Basel II 31/12/2013** | **Basel III 01/01/2014*** | **Basel III 31/12/2014** |
|---|---|---|---|
| **Total Capital** | **10,617** | **9,513** | **9,157** |
| **Common Equity Tier 1** | **10,054** | **9,268** | **8,754** |
| Core shareholders' equity | | 9,919 | 9,311 |
| Revaluation of financial assets available for sale or reclassified | | (661) | (642) |
| Cumulative translation adjustements (group share) | | (55) | 32 |
| Actuarial differences on defined benefit plans | | (2) | (5) |
| Non-controlling interests eligible in Tier 1 | | 353 | 341 |
| Items to be deducted: | | (285) | (283) |
| *Intangible assets and goodwill* | | *(95)* | *(23)* |
| *Ownership of Common Equity Tier 1 instruments in financial institutions (>10%)* | | *0* | *(2)* |
| *Own Credit Risk* | | *(104)* | *(104)* |
| *Deferred tax assets* | | *(4)* | *0* |
| *DVA* | | *(82)* | *(154)* |
| **Additional Tier 1** | **96** | **77** | **76** |
| Subordinated Debt | | 77 | 77 |
| Items to be deducted: | | 0 | (1) |
| *Ownership of additional Tier 1 instruments in financial institutions (>10%)* | | *0* | *(1)* |
| **Tier 2 Capital** | **467** | **168** | **327** |
| Subordinated Debt | | 108 | 69 |
| *of which additional Tier 1 instruments reclassified* | | *19* | *19* |
| IRB provision excess (+); IRB provision shortfall 50% (-) | | 68 | 318 |
| Items to be deducted: | | (8) | (59) |
| *Ownership of Tier 2 instruments in financial institutions (>10%)* | | *(8)* | *(59)* |

** Pro forma*

On that date, the Group's Tier 1 hybrid capital securities represented a nominal total of EUR 96 million., including EUR 77 million eligible as additional Tier 1 as at 31 December 2014.

No hybrid debt buyback operations were carried out in 2013. The Group's hybrid Tier 1 capital therefore consists of:
• EUR 56.25 million nominal of perpetual non-cumulative securities issued by Dexia Crédit Local. These securities (FR0010251421) are listed on the Luxembourg Stock Exchange.
• EUR 39.79 million nominal of perpetual non-cumulative securities issued by Dexia Funding Luxembourg, today incorporated with Dexia. These securities (XS0273230572) are listed on the Luxembourg Stock Exchange.

Tier 2 capital amounted to EUR 327 million as at 31 December 2014 and includes EUR 69 million of subordinated debt eligible as at 31 December 2014 and issued by Dexia Crédit Local and its subsidiaries.

Dexia's revised orderly resolution plan includes certain restrictions concerning the payment of coupons and the exercise of calls on subordinated debt and hybrid capital from the Group's issuers. In this way, Dexia is only required to pay coupons on hybrid capital and subordinated debt instruments if there is a contractual obligation to do so. Dexia cannot exercise any discretionary options for the early redemption of these securities.
In addition, as announced by Dexia on 24 January 2014[1], the European Commission refused to authorise the Group's proposal to repurchase the hybrid capital debt issued by Dexia Funding Luxembourg (XS0273230572), noting that the subordinated creditors must share in the financial burden resulting from the restructuring of financial institutions that have been granted State aid. The European Commission has also informed Dexia that it is authorised to communicate this information to the holders of this instrument and to the holders of financial instruments with identical characteristics. Financial instrument FR0010251421 issued by Dexia Crédit Local has similar characteristics.
The European Commission requested that Dexia communicates that this decision relates to its own situation and does not mean that similar decisions will be taken in respect of such financial instruments issued by other European banks subject to orderly resolution plans under the supervision of the Commission.

### Weighted risks

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 operational risk.
The first-time application of the Basel III solvency rules resulted in an increase in total weighted risks by EUR 7 billion, particularly the Credit Valuation Adjustment (CVA) (EUR 4 billion), the Asset Value Correlation (AVC) (EUR 1.5 billion), and a change in methodology of the calculation of the Exposure at Default (EaD) (EUR 1.5 billion).
Excluding this impact, the decrease of weighted risks over the year is due to operational risk, down following the reduction of the Group's scope. As for weighted credit risks, the positive impact of natural amortisation and the sale of assets was offset by fair value and exchange rates movements.

(1) Cf. press release from 24 January 2014 published on www.dexia.com.

| | Basel II | Basel III | Basel III |
|---|---|---|---|
| (in EUR million) | 31/12/2013 | 01/01/2014* | 31/12/2014 |
| Weighted credit risks | 42,141 | 49,075 | 49,437 |
| Weighted market risks | 2,668 | 2,668 | 2,941 |
| Weighted operational risks | 2,526 | 2,526 | 1,000 |
| TOTAL | 47,335 | 54,269 | 53,377 |

* Pro forma

### Solvency ratios

Dexia's Total Capital ratio was 17.2% and its 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 mainly associated with the first-time application of the Basel III regulatory framework, the decrease in regulatory capital resulting from the loss recorded in 2014 having been offset by the reduction of weighted risks.

| | Basel II | Basel III | Basel III |
|---|---|---|---|
| | 31/12/2013 | 01/01/2014* | 31/12/2014 |
| Common Equity Tier 1 ratio | 21.2% | 17.1% | 16.4% |
| Total Capital ratio | 22.4% | 17.5% | 17.2% |

* Pro forma

## Internal Capital Adequacy

In 2012, Dexia launched a process to overhaul its capital adequacy process adapted to its new situation as a bank in orderly resolution and in line with its strategy and the requirements of CRR and CRD IV.

In 2014, Dexia developed a Capital Adequacy and Risks approach which consists of drawing up an exhaustive, qualitative and quantitative mapping of the risks which might simultaneously affect its accounting, prudential and liquidity situation. This mapping aims to identify vulnerabilities and to measure the dispersion and volatility of the main accounting and prudential indicators in multiple scenarios in terms of future changes in risks
The initial results were submitted to the Audit Committee and to the Board of Directors on 6 August 2014, for those bodies to ensure the adequacy of capital and available liquidity sources in the various scenarios envisaged.
This Capital Adequacy and Risk approach, presented to the regulators at the end of 2014, is Dexia's response to the requirements of the European Central Bank (ECB) in its comprehensive assessment of banks and introduction of the Single Supervisory Mechanism, as well as the so-called Supervisory Review and Evaluation Process (SREP).
The complete formalisation of the approach based on the figures at 31 December 2014 will be submitted to the Group's decision-making bodies and the ECB as well as local regulators.

# Liquidity management

## 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 framework (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.

## 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 in the respective currencies. 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 framework matured, offsetting new issues.

The Group also continued to develop short- and long-term secured market funding, increasing outstandings by EUR 10.6 billion over the year.

The 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.

## 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 carried out an active funding policy through several secured funding transactions in an effort to optimise its collateral and a sustained government-guaranteed debt issuance program. As at half February 2015, Dexia had raised EUR 6 billion in long-term government-guaranteed funding, consisting of EUR 4 billion in benchmark transactions and EUR 2 billion in private placements. The group successfully launched three syndicated benchmarks, one in euro and one in US dollar, and continued to build out its funding curve with one 10-year sterling issue.

This dynamic funding activity enabled the Dexia Group to manage the increase in its liquidity requirement and the repayment of significant funding lines at the end of 2014 and the beginning of 2015. As at 27 February 2015, Dexia had repaid the remaining portion of outstanding Belfius-owned guaranteed debt which totalled EUR 12.8 billion. Dexia also had repaid the EUR 13 billion of own-used government-guaranteed bonds pledged to the Eurosystem refinancing operations. This repayment is in line with the progressive exit in 2015 from this derogation funding mechanism granted by the European Central Bank.

The outstanding debt guaranteed by the States of Belgium, France and Luxembourg was reduced from EUR 82 billion as at 17 February 2015 to EUR 70 billion as at 27 February 2015. The maximum ceiling is EUR 85 billion. The recourse to central bank funding was reduced from EUR 33.5 billion as at the end of 2014 to EUR 28.0 billion as at 27 February 2015.

The aforementioned repayments are a significant step towards the successful execution of the orderly resolution.

# Human resources

## Impact of the implementation of the orderly resolution plan and the company project on the Human Resources support line

Launched in May 2013, with the aim of redefining the Group's strategic objectives, governance and operational model, the company project was presented to and discussed with all the union negotiating bodies of Dexia. Their views were obtained at the end of March 2014, enabling the project to be operationally implemented within the Group from April 2014.
The Human Resources support line operates in particular along the following two lines: the HR role and accompanying change.
A reflection was launched to adapt the HR role to the Dexia Group's new situation, aiming in particular at attracting, motivating, developing and retaining staff members who serve the company with their expertise.
Over the past year, the Human Resources and Communication teams have worked on various actions to enable staff members to adapt to the new process of change. One of the actions consisted of working on new company values: consistency, professionalism and adaptability. These values were defined in a participative manner, in line with the Group's new mission and strategic objectives.
Lastly, the social strategy was elaborated so that the enterprise project would fall within the framework of social dialogue existing within the Dexia Group.
The company project is reflected by a modification and a simplification of the Group's structure, affecting all business lines and support functions. It has not necessitated the implementation of a social plan, as management has done all it could to find solutions for staff members whose posts were impacted by the changes of organisation.
On 6 November 2014, an agreement in relation to social management within the context of terminating contracts of employment on economic grounds, was signed for an indefinite term by all the representative union organisations. This agreements aim to give the Group the necessary flexibility to manage its resolution whilst offering staff members the best possible visibility. It defines the severance conditions for staff members of Dexia Crédit Local[1] in France who might be forced to leave on (individual or collective) economic grounds in coming years. These provisions are aimed at enabling the Group to continue its orderly resolution in a calm social climate upholding the undertakings made by the States vis-à-vis the European Commission in December 2012.

## Key figures

At the end of 2014, the Dexia Group had 1,265 staff members, of 42 different nationalities, in 14 pays. 83 people are based in Belgium and constitute a team of staff and executives involved in the continuity of the activity of all support lines.

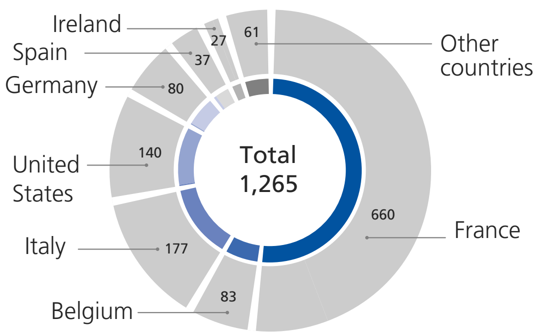
In France, the total workforce of Dexia Crédit Local is 660 as at 31 December 2014, against 766 at the end of 2013.

More than 57% of staff members joined the Group within the last ten years and the Group took on more than 14% of new staff members in 2014. At the end of 2014, the average length of service of Group staff members is 10 years. The average age is 42.

The global gender breakdown of the workforce shows 54.9% men and 45.1% women.

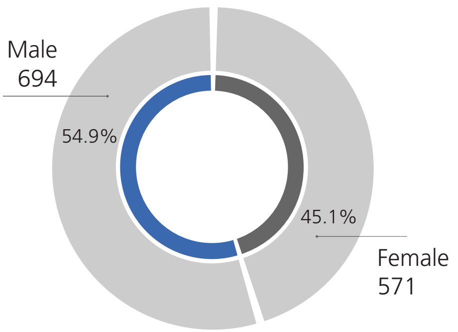
93% of the workforce are on indefinite-term contracts and 8% of Group staff members work part time.

**NUMBER OF STAFF AS AT 31 DECEMBER 2014**

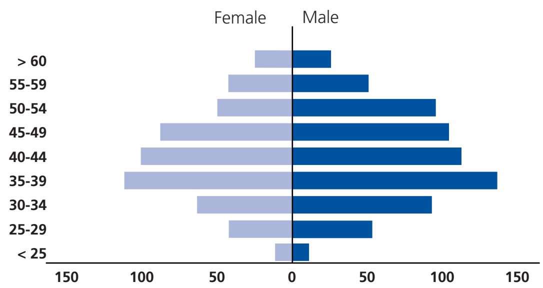



*(1) Dexia Crédit Local UES scope, including Dexia CLF Banque.*

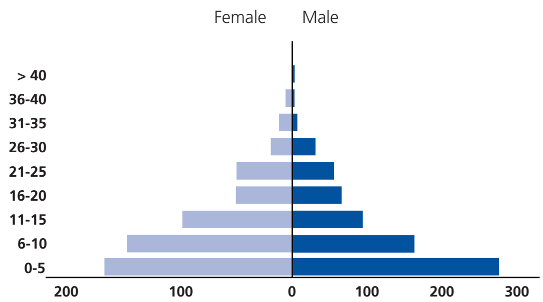
**GENDER BREAKDOWN AS AT 31 DECEMBER 2014**




**AGE PYRAMID AS AT 31 DECEMBER 2014**




**SENIORITY PYRAMID AS AT 31 DECEMBER 2014**




## Training

Dexia seeks to offer all of its staff members an environment propitious to the development of their skills and knowledge. To that end, the Human Resources Department works in close collaboration with the heads of each support line, endeavouring to maintain closeness to staff members in order to respond best to their expectations.

Various opportunities for development and training are in fact accessible to each staff member, particularly to build bridges between Group business lines; each staff member remaining in charge of its own professional project. Dexia also aims to perpetuate everybody's expertise, a gauge of their performance and employability.

Following on from previous years, the Dexia Human Resources Department has stressed its desire to act around four main training lines:

- Assisting in the evolution of professions and/or mobility;
- Strengthening managerial skills and accompanying change in the very specific context of the Group's orderly resolution;
- Detecting and preventing psychosocial risks;
- Implementing regulatory mechanisms, agreements and major processes of the company.

## Working conditions

The implementation of the orderly resolution plan and the company project is having significant impacts in terms of changes to staff working conditions. In particular, the Group has a longstanding commitment to ensuring the best possible visibility for staff concerning their company and their development within it, looking to prevent and detect stressful situations, notably through a "psychosocial risk" prevention policy. Numerous arrangements are in place within the Group to detect, prevent and manage stress and exhaustion at work.

Several channels for escalating information make it possible to detect these risks within the entities (Business Partners, occupational physician, social assistants, business partners, etc.).

With regard to prevention, a certain number of measures have been put in place or proposed within the entities: preventative medical checkups, ergonomics advice, conferences to raise staff awareness on psychosocial risks, practical workshops and training sessions on stress management, as well as coaching actions.

Lastly, as in previous years, the stress-related situations reported were taken into account and supported in various ways: interviews with the Human Resources Department, coaching measures, psychological support hotlines, adjustments to working hours, etc.



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## Recruitment, mobility, career management

Dexia develops its own methods of selection and a proactive strategy for seeking candidates on the internet, endeavouring to attract the best profiles.
To enable candidates to apply easily on line for positions or to find information on the current situation at Dexia, partnerships with several recruitment sites or solutions enabling job announcements to be disseminated were renewed in 2014.
Dexia adopts a selective external recruitment policy with a view to favouring mobility within the Group and thus promoting the development of internal skills.

## Compensation

The mechanism in place with the Group provides that the Dexia Appointment and Compensation Committee will prepare all the points relating to compensation policy. Its proposals are then submitted to the Dexia Board of Directors, which decides on the appropriate measures.
Dexia defines its compensation policy upholding the undertakings made by the French, Belgian and Luxembourg States to the European Commission, within the framework of the Group's orderly resolution plan. In particular, Dexia implements the compensation principles stated by the G20 and national bodies and the Group seeks to make the best use of public funds with regard to compensation.
More detailed information on compensation policy is provided in the section entitled "Compensation report" in the chapter "Declaration of corporate governance" in this Annual Report.

## Social dialogue

Dexia's European Works Council (EWC) now has only five permanent effective members from three entities in three different countries. This social body has discussions with management concerning any major cross-border matters.
All the Group's union negotiating bodies meet as part of the implementation of the company project. Information given to and consultation with these bodies resulted in their views being obtained at the end of March 2014.

# Declaration of Corporate Governance

## Introduction

### Reference Code

The Belgian Code of Corporate Governance, designated by the Belgian legislator as the Reference Code ("2009 Code"), is the reference for Dexia as alisted company whose shares are listed on a regulated market within the meaning of Article 96, § 2 1° of the Companies Code. It is available on the Belgian Official Gazette website as well as on the website *www.corporategovernancecommittee.be*.

The 2009 Code contains nine mandatory principles for listed companies, declined in different lines of conduct. Dexia respects these nine principles, but, as a result of the Group's specific situation and the new governance structure rolled out following the capital increase at end-December 2012, departs from the following two lines of conduct:

- Provisions 1.2. and 2.1., which recommend a mix of genders within the Board of Directors. Women make up 11% of the Board of Directors. However, the Board of Directors takes this recommendation into consideration when appointing members to fill vacant positions on the Board.
- Provision 5.2.4., which recommends that the Audit Committee be composed of a majority of independent directors. Dexia's Audit Committee is composed of two independent directors – including the committee chairman – out of four members, which goes even beyond the legal provisions applicable to listed companies, which require at least one independent director.

### Corporate Governance Charter

The Corporate Governance Charter of Dexia (hereafter the "Charter") gives a detailed overview of the principal governance aspects of the company. In accordance with the 2009 Code, the Charter has been published since 31 December 2005 on the company's website www.dexia.com and is regularly updated.

## Relations with shareholders

### Shareholder base

The shareholding structure of Dexia was modified significantly further to the capital increase on 31 December 2012. In this way, Dexia's main shareholders as at 31 December 2014 were as follows:

| Shareholder name | Percentage of existing Dexia shares held (31 December 2014) |
|---|---|
| Belgian federal government through Federal Holding and Investment Company | 50.02% |
| French State | 44.40% |
| Institutional, individual & employee shareholders | 5.58% |

At that same date, and to the best of the company's knowledge, no individual shareholder, with the exception of the Belgian Federal State and the French State, held 1% or more of the capital of Dexia.

As at 31 December 2014, the directors of Dexia held 61,186 shares in the company.

### Relations with shareholders

#### Relations with individual shareholders

The annual shareholders' meeting is held in Brussels on the third Wednesday in May[1]. It is subject to the provision of dedicated information: official notices appear in the Belgian Official Gazette and in the BALO in France, announcements are published in the financial press in Belgium and in Luxembourg, and an invitation to attend in French, Dutch and English can be downloaded from the website.

Since 1 January 2012, in accordance with the provisions of the Law of 20 December 2010 relating to the exercising of certain rights by the shareholders of listed companies, the level of share ownership required to allow one or more shareholder(s) to submit a proposal to the shareholders' meeting has been 3%.

The ordinary shareholders' meeting of was held in Brussels on 14 May 2014 and directly followed by an extraordinary shareholders' meeting of the minutes of which are available on the website.

*(1) Article 15 of the Articles of Association was amended by a resolution passed by the shareholders' meeting on 14 May 2014 to hold the shareholders' meeting henceforth on the third Wednesday in May instead of the second Wednesday in May.*

**Relations with institutional investors**

Relations with institutional investors are handled by a dedicated team (*dexia.investor-relations@dexia.com*), which also manages the relations with bond investors in connection with the marketing of the Dexia Group financing programmes.

**Information channels**

### Regular information channels

Throughout the year, notwithstanding its obligations with regard to the communication of inside information, Dexia publishes information through press releases on the Group's business, financial results and news. All this information is available, as soon as it has been published, on the website www.dexia.com under the "Shareholder/Investor" section. It can also be obtained by sending an email request to Dexia's financial communication department.

### The website (www.dexia.com)

The website is the main source of information on the Dexia Group for individual shareholders, journalists and institutional investors.

### Other resources

Dexia publishes complete annual information for shareholders and investors. The Dexia annual report is available in three languages: English, Dutch and French. The risk report published yearly is only available in English on the website.

## Observance of applicable legislation

As a Belgian-law company, whose shares are listed for trading in Belgium, France and Luxembourg, Dexia ensures compliance with its legal and regulatory obligations to provide specific and periodic information.

## Financial Services and Markets Authority (FSMA) Circular FSMA/2012-01

A Royal Decree of 14 November 2007 "on the obligations of issuers of financial instruments admitted to trading on a Belgian regulated market" stipulates the obligations of issuers with regard to the information to be provided to the public and their obligations to holders of financial instruments. In January 2012, the Financial Services and Markets Authority ("FSMA") published a Circular (updated on 21 October 2014) explaining this Royal Decree[1]. In accordance with this regulation, Dexia has decided since 2003 to use its internet site to fulfil its obligations to publish the information stipulated by the Royal Decree and the Circular, and in particular created a separate part of its internet site dedicated to the mandatory financial information referred to in the Circular.

*(1) This circular replaces the Banking, Finance and Insurance Commission Circular FMI/2007-02.*

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# Management of the Dexia Group

On 10 October 2012, Dexia and its main subsidiary Dexia Crédit Local were given an integrated operational management team adapted to the Group's new dimension.
Although separate legal structures have been maintained, the Group's management has been simplified and unified, particularly via common administration of the two main entities, Dexia and Dexia Crédit Local.

## Dexia's Board of Directors

### Composition of the Board of Directors

The Articles of Association of Dexia stipulate that the Board of Directors is composed of nine directors, five of Belgian nationality and four of French nationality. The Chairman of the Board of Directors is French and the CEO is Belgian. A director may, with the agreement of a majority of each group of directors of the same nationality, be considered as of Belgian or French nationality even though in reality they are of another nationality, the other nationality or of double nationality.
As at 31 December 2014, the Board of Directors is composed as follows:

#### ROBERT DE METZ

*Independent director*
3 January 1952 • French • Director since 2009
Holds no Dexia shares
Chairman of the Board of Directors of Dexia
Chairman of the Board of Directors of Dexia Crédit Local

**Beginning and end of current mandate: 2014-2018**

**Specialist committees:** Chairman of the Appointment and Compensation Committee • Chairman of the Strategy Committee

**Primary function:** Executive Director of La Fayette Management Ltd.

**Other mandates and functions:** • Director: Média-Participations (Paris-Brussels) • Chairman of the Board of Directors: Solocal Group SA (France) • Chief Executive Officer: Bee2Bees SA (Brussels) • Member of the Executive Committee: Fondation pour les Monuments Historiques.

**Biography:** Mr Robert de Metz is graduate of the Institut d'études politiques de Paris (IEP) and Ecole nationale d'administration (ENA). He began his career in the General Finance Inspectorate. He joined Banque Indosuez in 1983, occupying positions in Hong Kong and France before joining Demachy Worms & Cie. Active with Paribas from 1991, he performed numerous tasks, particularly mergers-acquisitions, before his appointment as a member of the Management Board, responsible from London for interest rate, exchange and derivatives markets. He was a director at Cobepa from 1993 to 1999. Between 2002 and 2007, he was Deputy Managing Director of the Vivendi Group in charge of mergers-acquisitions and strategy.

**Principal fields of expertise:** Finance, market operations and mergers and acquisitions

#### KAREL DE BOECK

3 August 1949 • Belgian • Director since 2012
Holds no Dexia shares

**Beginning and end of current mandate: 2012-2016**

**Primary function:** Chief Executive Officer and Chairman of the Management Board of Dexia • Chief Executive Officer of Dexia Crédit Local.

**Other mandates and functions:** Director of Dexia Crédit Local, Aswebo SA and Lamifil SA • Chairman of the Board of Directors of Boek.be ASBL • Non-executive director of Architecture Archive - Sint-Lukasarchief ASBL • Associated of White Art Centre SCRL.

**Biography:** Mr Karel De Boeck has a degree in electromechanical civil engineering (1972) and in economics (1974) from the Catholic University of Louvain. In 1976, he joined Générale de Banque, where he held various positions in Belgium and abroad, and become Director of Marketing for the commercial network. In 1993, he joined CGER Bank (Fortis) and became Chairman of the Management Board in January 1996. In 1999, following the purchase of Générale de Banque by Fortis, he was appointed Member of the Management Board of Fortis Bank and a Member of the Executive Committee of the Fortis Group, successively in charge of "medium-sized enterprise" activity, "corporate banking", "retail banking", "private banking" and then Director of Risks. In 2007, he became Vice-Chairman of ABN Amro Holding in the Netherlands. In December 2008, he was appointed Chief Executive Officer of Fortis Holdings, now Ageas (until June 2009). From 1999 until 2002, Mr Karel De Boeck was Chairman of the Belgian Banking Association (now Febelfin) and Chairman of the EFMA (European Federation of Management and Financial Marketing) from 2003 until 2006. He has been Chief Executive Officer and Chairman of the Management Board of Dexia since 2 August 2012, after having been Chairman of the Board of Directors from 1 July until 1 August 2012. He has also been Chief Executive Officer of Dexia Crédit Local since October 2012.

**Principal fields of expertise:** Finance and banking, restructuring, financial risk management, direction and management of institutions.

### THIERRY FRANCQ

30 April 1964 • French • Non-executive director since 2013
Holds no Dexia shares

**Beginning and end of current mandate: 2013-2017**

**Specialist committees:** Member of the Audit Committee • Member of the Appointment and Compensation Committee • Member of the Strategy Committee.

**Primary function:** Deputy commissioner general for investment (Ministry of Economy).

**Other mandates and functions:** Director of Dexia Crédit Local.

**Biography:** Mr Thierry Francq is an Ecole polytechnique and Ecole nationale de statistiques et d'administration économique (ENSAE) graduate. He began his career in 1988 in the Direction de la Prévision (Ministry of the Economy, Finance and Industry), as assistant to the head of the Foreign Bureau and then financial transactions. In 1992, he joined the Treasury Department where he was deputy head of the Housing Financing Bureau and, as of 1995, head of the Bureau in charge of French policy regarding the International Monetary Fund (IMF), the international financial system and the preparation of the G7 summits. From 2000 to 2002, he held the position of assistant manager in charge of the regulation of insurance companies, products and markets and then, from 2002 to 2004, assistant manager in the Service des participations before being appointed head of financing of the economy at the French Treasury (DGTPE). In March 2009, he was appointed secretary general of the Financial Markets Authority (AMF). From December 2012 to September 2013, he was executive adviser to the Director General of the French Treasury. On 7 October 2013, he was appointed deputy commissioner general for investment.

**Principal fields of expertise:** Economics, financial regulation and administration

### PIERRE VERGNES

6 May 1976 • French • Executive director since 1 January 2014.
Holds no Dexia shares

**Beginning and end of current mandate: 2014-2018**

**Primary function:** Member of the Management Board of Dexia • Executive Vice-President of Dexia Crédit Local.

**Other mandates and functions:** Director of Dexia Crédit Local.

**Biography:** An ESSEC graduate, Mr Pierre Vergnes began his career in 1998 on the trading floor at BNP (now BNP Paribas). In 2001, he joined Crédit Agricole Indosuez (now Crédit Agricole CIB) as part of the teams responsible for managing relations with financial institutions, before moving to Crédit Agricole SA's general inspection division in 2003. In 2006, he became a Manager with the consultancy Bain & Company. In 2010, he was appointed head of management control for the Dexia Group and Deputy Chief Financial Officer. Since the end of 2012, he has been Chief Financial Officer and a member of the Dexia Group Committee.

**Principal fields of expertise:** Finance, management control, financial modelling, corporate finance.

### ALEXANDRE DE GEEST

5 February 1971 • Belgian • Non-executive director since 2012
Holds no Dexia shares

**Beginning and end of current mandate: 2013-2017**

**Specialist committees:** Member of the Strategy Committee.

**Primary function:** Director of Treasury of the Belgian Fedeal State (SPF Finances).

**Other mandates and functions:** Director of Dexia Crédit Local and Director of the Silver Fund.

**Biography:** Mr Alexandre De Geest is a graduate in law from the Catholic University of Louvain and the Free University of Brussels. He has been a Director of numerous companies including Gazelec (2004-2005) and the Silver Fund since 2003. Mr Alexandre De Geest was an Adviser to the Cabinet of the Federal Minister of Finance from 2000, then an Adviser to the Cabinet of the Federal Minister of Foreign Affairs in 2011. He has been Director of Treasury (SPF Finances) since 2012.

**Principal fields of expertise:** Financial markets, finance, taxation

### PAUL BODART

*Independent director*
22 January 1953 • Belgian • Director since 2012
Holds no Dexia shares

**Beginning and end of current mandate: 2013-2017**

**Specialist committees:** Chairman of the Audit Committee • Member of the Appointment and Compensation Committee.

**Primary function:** Member of the T2S Committee of the European Central Bank (until 1 January 2015).

**Other mandates and functions:** Director of Dexia Crédit Local • Chairman of the Board of Directors or the Compagnie des Septs Bonniers • Member of the Board of various non-profit-making associations.

**Biography:** Mr Paul Bodart obtained his engineering degree from the Catholic University of Louvain in 1976 and a master's degree in business administration (MBA) in 1987 from INSEAD. At the start of his career, he held various positions with the European Bank for Latin America, JP Morgan and in particular Euroclear Operations Centre. Mr Paul Bodart joined The Bank of New York on 1 January 1996 as Senior Vice President, to become Director General of the Bank's Brussels subsidiary. He was then in charge of all global custodian activities. He was promoted to Executive Vice President on 1 January 2003. In March 2009, Mr Paul Bodart became Chief of EMEA Operations in the Asset Servicing department of the Bank of New York Mellon. He held the positions of Executive Vice President and CEO of BNY Mellon SA/NV, responsible for global EMEA operations until September 2012. In September 2012, he became a Member of the T2S Committee of the European Central Bank. In June 2014, he became Chairman of the Supervisory Board of National Settlement Depository (Russia) until 31 January 2015.

**Principal fields of expertise:** Direction and management of financial institutions, finance, risk management, human resources management, local and international regulations and management of compliance, mergers and acquisitions, and governance.

**BART BRONSELAER**

*Independent director*
6 October 1967 • Belgian • Director since 2012
Holds 60,000 Dexia shares

**Beginning and end of current mandate: 2013-2017**

**Specialist committees:** Member of the Audit Committee • Member of the Appointment and Compensation Committee

**Primary function:** Executive Director of Brier Business Development SPRL

**Other mandates and functions:** Director of Dexia Crédit Local, BAJ Buczyna, BAJ Czernikowice, BAJ Lubo2 Spzoo, PMC-Group SpzOO • Chairman of the Board of Directors of Right Brain Interface SA • Director of the private foundations: Gh. Piot et Le Bois Clair • Member of the Board of the non-profit-making associations: Katholiek Onderwijs Kessel-Lo and Abbaye d'Oignies.

**Biography:** Mr Bart Bronselaer holds a degree in industrial engineering (T Leuven Group), as well as a master's degree in information sciences (VUB) and a master's degree in business administration (MBA – KU Leuven). The major part of his career (1993-2003) was spent with Merrill Lynch International in London, where he held various positions, the last chronologically as Head of Debt Capital Markets for Europe, the Middle East and Africa. There he had the task of structuring and selling financial solutions to various clients, such as financial institutions, industrial companies and public bodies. In 2003, he became an independent expert in financial services. He was Chairman of the Board of Directors of Royal Park Investments until 31 December 2013.

**Principal fields of expertise:** Financial markets, finance, structured finance, derivatives, strategy

**DELPHINE D'AMARZIT**

9 May 1973 • French • Non-executive Director since 2013
Holds no Dexia shares

**Beginning and end of current mandate: 2013-2017**

**Specialist committees:** Member of the Strategy Committee

**Primary function:** Head of department at the Directorate General of the French Treasury

**Other mandates and functions:** Director of Dexia Crédit Local • Director representing the French State within the Board of BPI-Group SA and EPIC BPI-Group SA.

**Biography:** Mrs Delphine d'Amarzit is a graduate from the Institut d'études politiques (IEP) in Paris and is a former student of the Ecole nationale d'administration. In 1996, she became a Finance inspector. In 2000, she was appointed assistant secretary general and then in 2001 secretary general of the Paris Club and head of the "International indebtedness, Paris Club and credit insurance" bureau at the Treasury Department. She then became adviser in charge of the financial sector to the Minister for the Economy, Finance and Industry (2003-2006), assistant manager for financial markets and corporate financing (2006-2007) at the Treasury Department, and then adviser for economic and financial affairs to the Prime Minister (2007-2009). Since July 2009, she has been head of department at the Directorate General of the Treasury. She was also a director of the Agence française de développement until March 2013 and is currently a director of the Banque publique d'investissement.

**Principal fields of expertise:** Economics, financial markets, financial regulation.

**KOEN VAN LOO**

26 August 1972 • Belgian • Non-executive Director since 2008
Holds 1,186 Dexia shares

**Beginning and end of current mandate: 2013-2017**

**Specialist committees:** Member of the Audit Committee • Member of the Appointment and Compensation Committee • Member of the Strategy Committee.

**Primary function:** Chief Executive Officer and member of the Strategy Committee of the Federal Holding and Investment Company.

**Other mandates and functions:** Director: Certi-Fed SA, Bel to mundial ASBL, Kasteel Cantecroy Beheer SA, Société Belge d'Investissement International, Biloba Investment & Ginkgo Management SARL, Capricorn Health Tech Fund SA and Capricorn ICT Fund, Fundo Performa-Key de Inovaçao em meio ambiente, and Director of Dexia Crédit Local.

**Biography:** Mr Koen Van Loo is graduate in applied economics. After gaining a degree in taxation, he began his career as Deputy Adviser to the Central Economic Council. In September 1999, he joined the Office of the Belgian Minister of Finance as an expert. In November 2000, he was appointed Adviser to the Cabinet and was then head of the Cabinet from May 2003 until November 2006. He was then appointed Chief Executive Officer and a Member of the Strategy Committee of the Federal Holding and Investment Company.

**Principal fields of expertise:** Financial analysis, accounting, taxation and strategy

## Eligibility criteria

The internal rules of the Board of Directors stipulate that directors are appointed by the of shareholders' meeting on the basis of their expertise and the contribution they can make to the administration of the company.
Directors meet the skills profile defined by the Board of Directors based on proposals from the Appointment and Compensation Committee which are an integral part of the internal rules of the Board of Directors. All members of the Board of Directors must have the time required to fulfil their obligations as a director. Non-executive directors may not consider accepting more than five directorships in listed companies.

In order to ensure that there is balanced gender representation on the Board, and in accordance with applicable provisions, on a proposal from the Appointment and Compensation Committee, the Board of Directors adopted and action plan aimed at achieving the target set by Article 518 bis of the Companies Code. To that end, each director is interviewed individually by the Chairman in order to identify their desire to remain a director of the company. Moreover, the company may join associations focussing on the presence of women on boards of directors and participate in initiatives such as mandate exchanges and events organised by specialist associations.

### Procedure for appointing and assessing members of the Board of Directors

In line with their obligations in particular under CRD IV and its national transpositions, Dexia and Dexia Crédit Local have the procedures in place necessary for checking the expertise and professional integrity of directors, senior executives of the two entities and heads of the independent control function. Fulfilment of these obligations will involve several departments, with the Human Resources department in charge, on behalf of the Management Board or the Board of Directors of the selection and recruitment process, the Compliance department in charge of checking the integrity of candidates, the absence of conflicts of interest by virtue of other functions or mandates, the General Secretariat in charge of relations with the regulatory and supervisory authorities. This verification performed at the time of recruitment of the candidate will be assessed annually.

#### Appointment

The Appointment and Compensation Committee is responsible for making proposals on the appointment of any new director to the Board of Directors, which decides alone whether the application will be submitted to the shareholders' meeting or not. The committee ensures that before considering approval of the application, the Board has received sufficient information on the candidate. Each candidate is proposed on the basis of his/her potential contribution in terms of knowledge, experience and specialisation in one or more of the following fields: vision and strategy, leadership and management skills, financial and accounting expertise, international experience and knowledge of the Group's business lines. The candidate must also have the necessary availability to fulfil his/her obligations as a director.

#### Resignation

When directors wish to end a term of office early, they send a resignation letter to the Chairman of the Board of Directors who informs the Board at its next meeting. The Board of Directors will provide a provisional replacement for the resigning director by cooptation and the following shareholders' meeting will make a definitive appointment.
If there is a major change in the functions of a director likely to affect their ability to meet the eligibility criteria as defined in the Board's internal rules, they are invited to resubmit their mandate to the company and to provide the Chairman of the Appointment and Compensation Committee with any useful information.

#### Assessment

The Board of Directors is organised to achieve the best exercising of its expertise and responsibilities. Each year, in principle, it carries out a self-assessment of its operations and its specialist committees, led by the Chairman of the Board of Directors, in order to make useful changes and improvements to its internal rules. The criteria adopted in making the assessment include the efficiency and frequency of meetings of the Board and the specialist committees, the quality of the information provided to the Board and its specialist committees, the compensation of members of the Board and its committees, and even the role of the Chairman.
When a director's mandate is renewed, the Appointment and Compensation Committee makes an assessment of the participation in the Board of Directors' operations and reports on that with a recommendation.

A self-assessment was launched at the end of 2013 based on an individual, anonymous questionnaire covering the Board's composition and efficiency, the frequency of meetings and the information given to directors, the Chairman's role and interactions with the Management Board, and lastly the compensation awarded to directors. The conclusive report prepared by the Chairman and Secretary General was presented to the Board of Directors and the proposed improvements have been adopted.

### Changes in the composition Dexia's Board of Directors in 2014

During the 2014 financial year, the changes in the composition of Dexia 's Board of Directors were as follows.
- Approval by the ordinary shareholders' meeting held on 14 May 2014 of the renewal of the director's mandate of Mr Robert de Metz for a further period of four years to end after the ordinary shareholders meeting to be held in 2018.
- The definitive appointment of Mr Pierre Vergnes for a four-year term of office as a director to end further to Dexia's Ordinary Shareholders' Meeting in 2018, following his provisional appointment by the Board of Directors during its meeting on 13 December 2013 with effect from 1 January 2014 to replace Mr Philippe Rucheton, who had resigned.

| Composition of the Board of Directors as at 31 December 2014 |
|---|
| Robert de Metz |
| Karel De Boeck |
| Pierre Vergnes |
| Alexandre De Geest |
| Koen Van Loo |
| Thierry Francq |
| Delphine d'Amarzit |
| Paul Bodart |
| Bart Bronselaer |
| **TOTAL 9 MEMBERS** |

### Independent directors

The independence criteria applied to the directors of Dexia are aligned with the legal criteria set out in Article 526ter of the Companies Code. These criteria, which form an integral part of the internal rules of the Board of Directors, are as follows:
**1)** For a period of five years preceding their appointment, independent directors may not have held a mandate or a position as an executive member of the Board of Directors, or as a member of the Management Board or delegate for day-to-day management, of Dexia or of a company or a person associated with it in the meaning of Article 11 of the Companies Code;
**2)** Independent directors may not have sat on the Board of Directors of Dexia as non-executive directors for more than three successive mandates without that period exceeding 12 years;
**3)** During a period of three years preceding their appointment, independent directors may not have been a member of the management staff;
**4)** Independent directors may not receive, or have received, compensation or other significant benefits of an asset nature from Dexia or from a company or a person associated with it in the meaning of Article 11 of the Companies Code, outside any percentages and fees received as non-executive members of the Board of Directors or members of the supervisory body;

**5)** Independent directors:

a) may not hold any social right representing one tenth or more of the capital, social funds or category of shares of the company;.

b) if they hold social rights representing a proportion of less than 10%:

– by the addition of the social rights with those held in the same company by companies of which independent directors have control, those social rights may not reach one tenth of the capital, social funds or category of shares of the company;or

– acts of disposal in relation to those shares or the exercising of the rights attached hereto may not be subject to contractual stipulations or unilateral undertakings to which the independent member of the Board of Directors has subscribed.

c) may not in any way represent a shareholder that meets the conditions of the present point.

**6)** Independent directors may not have entered into or maintained a significant business relationship with Dexia or with a company or person associated with it in the meaning of Article 11 of the Companies Code over the last financial year, either directly or as a partner, shareholder, member of the Board of Directors or member of management staff of a company or person entering into such a relationship;

**7)** During the last three years, independent directors may not have been a partner or employee of a current or previous auditor of Dexia or an associated company or person associated with it in the meaning of Article 11 of the Companies Code;

**8)** Independent directors may not be an executive member of the Board of Directors of another company in which an executive director of Dexia is a non-executive member of the Board of Directors or a member of the supervisory body, and may not have other significant ties with the executive directors of Dexia through positions held in other companies or bodies;

**9)** Independent directors may not, either within Dexia or within a company or person associated with it in the meaning of Article 11 of the Companies Code, have either their spouse, or the person with whom they live under a common law marriage, or an immediate family member or a relative up to two removes exercising a mandate as member of the Board of Directors, delegate for day-to-day management or member of the management staff, or in one of the other cases defined in points 1 to 8.

Any of Dexia's independent directors who no longer meet any of the said criteria, particularly following a major change of their functions, will immediately inform the Chairman of the Board of Directors who will inform the Appointment and Compensation Committee; the Appointment and Compensation Committee will inform the Board of Directors and if necessary formulate an opinion.

Considering these criteria, Dexia's Board of Directors had three independent directors as at 31 December 2014, namely Mr Robert de Metz, Mr Bart Bronselaer and Mr Paul Bodart.

### Non-executive directors

A non-executive member of the Board of Directors is a member who does not exercise management functions in a Dexia Group company. The internal rules of the Board of Directors of Dexia stipulate that at least one half of the Board of Directors must be non-executive directors and at least three of the non-executive directors must be independent. It is to be noted that with the exception of Mr Karel De Boeck and Mr Pierre Vergnes, respectively Chairman and member of the Management Board, all the members of the Board of Directors of Dexia are non-executive directors.

The non-executive members of the Board of Directors are entitled to obtain any information necessary for them to perform their mandate properly and may ask management for that information.

### Separation of the functions of Chairman of the Board of Directors and Chief Executive Officer

There is a clear separation of responsibilities at the head of the Group between on the one hand the responsibility to lead the Board of Directors by a French Director and on the other hand the executive responsibility to lead activities by a Belgian Chief Executive Officer. The articles of association of Dexia as well as the internal rules of the Board of Directors of Dexia expressly indicate that the Chief Executive Officer cannot perform the tasks of the Chairman of the Board.

### Term of office

Members of the Board of Directors are appointed for a maximum term of office of four years. Board members can be re-elected.

The number of renewals of mandate for a non-executive director of the company is limited to two. The age limit for directors is 72. The directors concerned resign with effect from the date of the ordinary shareholders' meeting following their birthday.

## Board of Directors' remits and responsibilities

The internal rules of the Board of Directors describe the remits and responsibilities of the Board of Directors in three areas:

- strategy and general policy;
- management control and risk management;
- relations with shareholders.

### Strategy and general policy

Regarding principles, in implementing the revised orderly resolution plan, Dexia's Board of Directors defines the strategy and Group standards and sees to the implementation of that strategy at Group level and in its main operating entities. The Board ensures that the principles of good governance are observed. Within this framework, Dexia's internal rules stipulate in particular that the Board of Directors:

- examines the major proposals made by the Management Board and presented to it by the Chief Executive Officer;
- determines the strategy of Dexia and its various business lines implemented by the Management Board, sets priorities, approves the annual budget and, more generally, ensures the balance between the strategy defined and the human and financial resources required.

### Management control and risk management

The Board of Directors controls and directs the management of the company and of the Group and monitors risks.

For this purpose, the internal rules of Dexia's Board of Directors provide that the Board:

- assesses the implementation, by the Group, of independent control functions, which in particular include risk management, internal audit and compliance procedures on a centralised basis;

• takes the measures required to ensure the integrity of the financial statements;
• assesses the performance of the Management Board members;
• supervises the performance of the Statutory Auditor(s) and internal auditors;
• defines the organisation of the Management Board in terms of its composition, operation and obligations on the recommendation of the Chairman of the Management Board;
• sets the compensation for Management Board members on the recommendation of the Appointment and Compensation Committee and the recommendation of the Chairman of the Management Board for Management Board members other than himself.

#### Role of the Board of Directors in relation to the company's shareholders

The Board ensures that its obligations to all shareholders are understood and fulfilled, and reports to the shareholders on the exercising of its responsibilities.

### Operation of the Board of Directors

#### Articles of association

The company's articles of association set forth the following rules that govern the Board of Directors' operations:
• all deliberations require the presence or representation of at least half of the members of the Board;
• decisions are adopted by a majority vote of all members present or represented;
• decisions concerning the operations described below require the presence or representation of at least two thirds of the members of the Board, and a two thirds majority of all the members present or represented:
– acquisition or disposal of assets with a gross unit value above EUR 500 million;
– proposals to amend the company's articles of association, including with regard to the issuing of shares, bonds which are convertible or redeemable in shares, warrants or other financial instruments giving a future right to shares;
– appointment and dismissal of the Chairman of the Board of Directors and the Chief Executive Officer;
– decision to increase capital within the framework of the authorised capital;
– appointment of directors within the Board of Directors of Dexia Crédit Local, to the extent that the decision might relate to the appointment of other persons than directors of the company and a different number of directors to that of the Board of Directors of Dexia; and
– decisions to amend the internal rules of the Board of Directors.

The Board of Directors may, on an ad hoc basis or generally, invite observers to attend its meetings. These observers do not have a deliberative vote and are bound by the same obligations, particularly of confidentiality, as the directors.

#### Internal rules of Dexia's Board of Directors

The internal rules of Dexia's Board of Directors codify a set of rules intended to enable the Board to fully exercise its powers and enhance the efficiency of the contribution made by each director.

#### General organisational principles

The Board of Directors is organised to achieve the best performance of its expertise and responsibilities.

The Board's meetings are frequent enough to allow the Board to perform its tasks. Board members commit to participate actively in the work of the Board and the committees on which they sit. Attendance at meetings of the Board and committees is the first condition of this participation and effective attendance at three quarters of the meetings at least is expected.
The agenda lists the items to be discussed and states if they are listed for information purposes, for discussion, or for a vote.
The minutes report discussions and record the decisions made, specifying reservations issued by some directors, if applicable.

#### Duty of confidentiality

The information provided to the directors in the performance of their duties, during Board meetings, meetings of the specialist committees, or during private interviews, is given on an intuitu personae basis; they shall ensure that the confidentiality of such information is strictly maintained.

#### Training of Board members

The Chairman of the Board of Directors ensures that directors receive all useful information enabling them to contribute directly towards the work of the Board and its committees, if applicable, in addition to all relevant information concerning the Group's activities. The directors ensure that they keep their skills up-to-date throughout their time in office in order to be able to exercise their responsibilities properly.

#### Conflicts of interest

The directors ensure that their participation in the Board of Directors is not a source of any conflict of interests for them in the sense of the applicable regulations.
Directors submit their mandate to the Board if there is a significant change in their duties and the Board decides whether to accept their resignation in such cases, after an opinion from the Appointment and Compensation Committee. They must resign if a change in their situation creates any incompatibility with their office as a director of Dexia.
If any directors directly or indirectly have a conflicting financial interest in a decision or operation to be decided by the Board of Directors, they must inform the other members of the Board before they deliberate. Their declaration, including the reasons for their conflicting financial interest, must be recorded in the minutes of the Board meeting that will make the decision. In addition, they must inform the company's statutory auditors. They may not participate in the Board of Directors' deliberations in relation to the transactions or decisions concerned, or vote on them.
For publication in the annual management report, the Board of Directors describes in the minutes the type of decision or operation in question and the reasons for the decision made and the financial consequences for the company. The management report contains a copy of the minutes described above.

#### Transactions between a Dexia Group company and Board members

The Board of Directors' internal rules state that transactions between a Dexia Group company and directors must be entered into under normal market conditions.

#### Transactions on Dexia financial instruments

In order to promote the transparency of transactions in Dexia financial instruments, the internal rules stipulate that all Dexia directors have "permanent insider" status in view of their regu-

lar access to inside information on Dexia. Executive directors, as well as some non-executive directors, including the members of the Audit Committee, who have access to the estimated consolidated results of Dexia, are thus entered in the list of "estimated consolidated results insiders". Moreover, within the context of certain specific projects, directors may have access to inside information on Dexia in relation to its projects, and they are entered in the list of "occasional insiders".
In view of their "permanent insider" status, directors:
• will refrain from deciding on any transaction on Dexia financial instruments during a one-month period prior to the announcement of the quarterly, half-year or annual results;
• must obtain prior authorisation from the Chief Compliance Officer before any transaction on Dexia financial instruments.
Directors with the status of "estimated consolidated results insiders" are subject to a statutory restriction period associated with estimated results and will refrain from deciding on any transactions on Dexia financial instruments during a negative trading window commencing 15 days prior to the accounting closing date and ending on the date when the results are published. Moreover, they must obtain authorisation from the Chief Compliance Officer before any transaction in view of their "permanent insider" status.
Directors entered in the list of "occasional insiders" may not, during the time they are in the list, decide on any transaction on Dexia financial instruments.
With regard to stock options and given their terms and conditions, it is possible to uncouple the initiation of the order from its execution. Applying this principle, a director may give an instruction relating to the exercising of stock options during a positive trading window with a view to their execution if necessary during a negative period. This uncoupling is only possible if the order given is irrevocable and has a floor price limit.
Directors and persons who are closely associated with them are required to notify the FSMA of transactions on Dexia financial instruments carried out on their own behalf. Transactions notified are automatically published by the FSMA on its website.
Directors must declare to the Chief Compliance Officer:
• at the time of their entry into office, all the Dexia financial instruments they hold;
• at the end of each year, an update to the list of Dexia financial instruments they hold.
The rules and restrictions relating to transactions on Dexia financial instruments described above are applicable for directors and persons closely associated with them. They also apply to observers as defined in Dexia's articles of association.

## Operation and activities of Dexia's Board of Directors during the 2014 financial year

### Attendance by Board members

The Board met 12 times in 2014. The directors' attendance rate at Board meetings was 97%.

**ATTENDANCE RATE FOR EACH DIRECTOR AT BOARD OF DIRECTORS MEETINGS**

| | |
|---|---|
| Robert de Metz | 100% |
| Karel De Boeck | 100% |
| Paul Bodart | 100% |
| Bart Bronselaer | 100% |
| Alexandre De Geest | 100% |
| Koen Van Loo | 100% |
| Delphine d'Amarzit | 83.3% |
| Thierry Francq | 91.7% |
| Pierre Vergnes | 100% |

### Activities of the Board of Directors

In addition to matters falling within the ordinary remit of the Board of Directors (monitoring results, approving the budget, appointment and compensation of Management Board members, convening of ordinary and extraordinary shareholders' meetings, minutes of specialist committee meetings), the Board dealt in particular with the cases described below during 2014:
• Revised orderly resolution plan and State undertakings in relation to the European Commission
• Group liquidity
• Comprehensive assessment by the European Central Bank
• Group governance changes
• Disposals of operating entities
• Outsourcing project

### Conflicts of interest

As already indicated, if any directors directly or indirectly have a financial interest conflicting with a decision or operation of the Board of Directors, they must inform the other directors prior to the Board of Directors' deliberations. Their declaration, as well as a substantiation of the conflict of interest on their part, must appear in the minutes of the meeting of the Board of Directors which has to take the decision.
During its meeting on 19 February 2014, the Board reviewed the compensation for Management Board members and the authorisation for Mr Karel De Boeck to continue serving in his positions after his 65th birthday. In accordance with Article 523 of the Companies Code, Messrs Karel De Boeck and Pierre Vergnes refrained from participating in the deliberations concerned and the corresponding votes. An extract from the minutes covering these points (already published in the Annual Report for the 2013 financial year, at pages 61-62) is given below.

***(a) Reading of the opinion of the Appointment and Compensation Committee***

The Appointment and Compensation Committee met on 11 February 2014 to review the Dexia Group's governance and the compensation-related decisions adopted by the Board of Directors during its meeting on 13 December 2013. The Appointment and Compensation Committee invites the Board of Directors to adopt the following decisions:
(i) Office of Mr Karel De Boeck. The Appointment and Compensation Committee proposes that the Board confirm, as necessary, its decision to authorise Mr Karel De Boeck to continue serving as Chairman of the Management Board and Chief Executive Officer of Dexia after his 65th birthday and through to the end of his directorship with Dexia (i.e. at the end of the annual shareholders' meeting in 2016).
(ii) Changes to the composition of the Management Board. The Appointment and Compensation Committee proposes that Dexia4s Management Board be made up of three members in the future and that Messrs Karel De Boeck, Claude Piret and Pierre Vergnes continue in their positions as Management Board members (while noting that Mr Philippe Rucheton will continue to be a member of the Management Board until 31 March 2014).
(iii) Compensation for Mr Pierre Vergnes. The Appointment and Compensation Committee proposes that the compensation awarded to Mr Pierre Vergnes for his positions within the Dexia Group be set at EUR 420,000.
(iv) Mandates held by Mr Claude Piret. The Appointment and Compensation Committee proposes that Mr Claude Piret be assigned, on a permanent and no longer temporary basis, as decided by the Board of Directors during its meet-

ing on 13 December 2013, responsibility for heading the Dexia Group's Assets activity line. The Appointment and Compensation Committee also proposes that the Board's decisions from 13 December 2013 concerning Mr Claude Piret's potential severance benefits be cancelled (…).

***(b) Board of Directors' discussions and decisions***

Prior to the discussions concerning the Appointment and Compensation Committee's proposals, Mr De Boeck informs the other directors, in accordance with Article 523 of the Companies Code, that he might have a conflicting interest with the first two decisions being considered (authorisation for Mr Karel De Boeck to remain in office after his 65th birthday and changes to the composition of the Management Board) since these decisions concern his own personal situation, as Mr Karel De Boeck is a member of the Management Board. In addition, Mr Pierre Vergnes informs the other directors, in accordance with Article 523 of the Companies Code, that he might have a conflicting interest with the second and third decisions being considered (changes to the composition of the Management Board and compensation for Mr Pierre Vergnes) since these decisions concern his own personal situation, as Mr Pierre Vergnes is also a member of the Management Board. Messrs Karel De Boeck and Pierre Vergnes undertake to notify the company's auditor about these conflicts of interest. Mr Karel De Boeck will not participate in the deliberations or voting process for the first two decisions being considered (authorisation for Mr Karel De Boeck to remain in office after his 65th birthday and changes to the composition of the Management Board) and Mr Pierre Vergnes will not participate in the deliberations or voting process relating to the second and third decisions being considered (changes to the composition of the Management Board and compensation for Mr Pierre Vergnes). As a result, Mr Karel De Boeck leaves the Board meeting during the deliberations and voting on the first two decisions and Mr Pierre Vergnes leaves the Board meeting during the deliberations and voting on the second and third decisions. After discussion, and as proposed by the Appointment and Compensation Committee, the Board decides unanimously, based on the directors taking part in the voting process, to:

(i) confirm, as necessary, its decision to authorise Mr Karel De Boeck to continue serving as Chairman of the Management Board and Chief Executive Officer of Dexia after his 65th birthday and through to the end of his directorship with Dexia (i.e. at the end of the annual shareholders' meeting in 2016);

(ii) reduce the number of Management Board members to three, namely Messrs Karel De Boeck, Claude Piret and Pierre Vergnes (while noting that Mr Philippe Rucheton will continue to be a member until 31 March 2014);

(iii) set the compensation received by Mr Pierre Vergnes for his positions within the Dexia Group at EUR 420,000;

(iv) (…)

(v) (…)

(vi) confirm that the provisions relating to severance benefits for Dexia's Management Board members will be aligned with the timing and claw-back principle introduced by the new Belgian banking law, which will come into force over the coming months.

(vii) (…)

(viii) (…)

The Board of Directors considers that these decisions are in line with the company's best interests, ensuring a reasonable balance between, on the one hand, the need to have a fair compensation policy making it possible to attract and retain the talents required to implement the Dexia Group's orderly resolution plan, and, on the other hand, the concerns expressed by the Belgian and French States, the company's ethical expectations and the banking legislation which will be coming into force shortly.

The Board of Directors also acknowledges the proposal for the Management Board to set up an executive committee, which would be delegated certain missions by the Management Board relating to the company's operational management. The executive committee will be made up of Messrs Johan Bohets, Marc Brugière and Benoît Debroise, in addition to the Management Board members.

The Appointment and Compensation Committee informs the Board of Directors of the compensation packages being considered by the Management Board for these three executives, which the Board duly acknowledges.

At its meeting on 13 March 2014, the Board of Directors decided that Dexia would grant an indemnity guarantee to members of the Dexia Management Board. In accordance with Article 523 of the Companies Code, Messrs Karel De Boeck and Pierre Vergnes refrained to participating in the deliberations concerned and the corresponding votes. An extract from the minutes dealing with this point is given below.

**3.1 – Indemnity guarantee**

The Chairman tells the Board about the proposal that an indemnity guarantee be granted by Dexia to Management Board members as from 1 January 2014 against the risk of liability arising from their mandate.

Prior to discussion on the proposal to grant an indemnity guarantee to Management Board members, Messrs Karel De Boeck and Pierre Vergnes inform the other directors, in accordance with Article 523 of the Companies Code, that they might have a conflicting interest with the decision proposed since it relates to their personal situation, as Messrs Karel De Boeck and Pierre Vergnes are Management Board members and would therefore have the benefit of the planned indemnity guarantee. Messrs Karel De Boeck and Pierre Vergnes will inform the company's auditor of these dual interests. Messrs Karel De Boeck and Pierre Vergnes will not participate in the deliberations or the voting process in relation to this decision and therefore leave the meeting.

The Chairman presents a draft letter from Dexia to the Directors of Dexia and Dexia Crédit Local and the Management Board members of Dexia and Dexia Crédit Local in which the company undertakes to indemnify them against all the prejudicial consequences of their mandate.

This undertaking would of course be limited to what is permitted by the applicable law or regulations. It would not therefore cover the liability of directors and Management Board members with regard to Dexia (and Dexia Crédit Local for the directors and Management Board members of Dexia Crédit Local) for possible fines imposed on criminal conviction and would not be applicable in the case of fraud on their part. Furthermore, the guarantee undertaking would not cover the liability of the directors of Dexia Crédit Local with regard to third parties for any wrong not linked to their functions, as this notion is defined by French case law. It is also proposed that, to the extent that the amount of the prejudicial consequences for which the directors or Management Board members might be held liable would not exceed EUR 20,000, and only the costs associated with their representation and the proceedings, including the costs and fees of appointed legal and financial advisers would be covered. Finally, it is proposed that this guarantee undertaking shall only cover the liability of directors and Management Board members insofar as the prejudicial consequences raised have not been effectively indemnified at the end of the third party intervention.

The decision to grant an indemnity guarantee to the directors of Dexia and Dexia Crédit Local and to the Management Board members of Dexia and Dexia Crédit Local arises in principle from the competence of the Dexia Management Board, to which the Board of Directors has delegated its management powers. Since members of the Dexia Management Board would benefit from this guarantee, it appears to be indicated from the point of view of good governance that the Board of Directors is itself taking this decision for the members of the Dexia Management Board. Furthermore, if this decision is adopted by the Dexia Management Board, all the members of the Board should abstain in accordance with Article 524 of the Companies Code since they would benefit from the indemnity guarantee. The Management Board would therefore be faced with a situation of a block and the decision could not be taken. In view of these constraints and with the aim of good governance for which the company strives, it seems preferable that the Board of Directors rules on the indemnity guarantee from which the members of the Dexia Management Board would benefit from 1 January 2014. The Management Board could then rule on the indemnity guarantee which could be granted to the directors of Dexia and Dexia Crédit Local as well as the members of the Management Board of Dexia Crédit Local not yet affected by the decision of the Board of Directors.

**Decision:** After discussions, the Board decides, by a unanimity of directors voting, to grant an indemnity guarantee to the members of the Dexia Management Board as from 1 January 2014 in the terms of the draft letter submitted to it.

The Board thinks that it should take this decision with the aim of good governance and in order to prevent situation of block within the Management Board.

The Board considers that this decision is in the interests of the company and that it responds to the company and the Group's need to recruit and to retain skilled executives for the Dexia Group. This need is all the more significant here in view of the current situation of Dexia and its Group. As a systemic institution involved in a complex process of orderly resolution the financial situation of which in particular is subject to factors outside the Group's control, Dexia has an interest in offering sound liability cover in order to recruit and to retain quality executives capable of implementing the Group's orderly resolution plan.

At its meeting on 16 December 2014, the Board ruled on the question of "harmonisation of compensation granted to non-executive directors of Dexia. In accordance with Article 523 of the Companies Code, the directors concerned by this decision, namely Mrs Delphine d'Amarzit and Messrs. Paul Bodart, Bart Bronselaer, Alexandre De Geest, Thierry Francq and Koen Van Loo, refrained from participating in the deliberations concerned and the corresponding voting.

### 4.1 – Harmonisation of directors' compensation

The Appointment and Compensation Committee met on 15 December 2014 to examine the question of harmonisation of the compensation granted to non-executive directors. Prior to the discussion on the proposals of the Appointment and Compensation Committee, Mrs Delphine d'Amarzit and Messrs Paul Bodart, Bart Bronselaer, Alexandre De Geest, Thierry Francq and Koen Van Loo inform the other directors that they might have a conflicting interest with the decisions being considered since those decisions concern their personal situation, as they are non-executive directors of the company and therefore benefit from the compensation to be discussed. As a consequence, it is proposed to apply the procedure provided in Article 523 of the Companies Code. The directors concerned will notify the company's auditor of the possible conflicting interests. They will not participate in the deliberations concerned or in the voting process for the planned harmonisation of compensation granted to non-executive directors.

The simulations presented to the Board as well as the financial impacts examined by the Appointment and Compensation Committee rely on the number of meetings of the Board of Directors of Dexia and Dexia Crédit Local as well as the specialist committees in 2014.

The evolution of proposed conditions of the compensation of non-executive directors revolves around the following principles:

a. The compensation of non-executive directors, excluding the Chairman of the Board of Directors, would be harmonised. It would consist of a fixed compensation of EUR 3,000 per quarter (consolidated at the level of the Board of Dexia Crédit Local) and attendance fees of (EUR 2,000 for meetings of the Board of Dexia and Dexia Crédit Local and the Audit Committee and EUR 1,500 for meetings of the Appointment and Compensation Committee). The Chairman of the Audit Committee would be compensated for his post (attendance fees would be raised to EUR 3,000 per meeting).
b. The payment would be made quarterly.
c. In addition, in order to improve the consideration of files by directors in the corporate interest of the company, all members of the Board of Dexia Crédit Local (including the representatives of the Belgian and French authorities and the two non-concerned directors of Dexia Crédit Local) would be convened to meetings of the Audit Committee and compensated for their attendance. This proposal would involve a (limited) increase of the attendance fee envelope, as explained in the supporting document.
d. Finally, attendance fees would be reduced by 50% for meetings of a Board organised at the same time as a meeting of the Board of DCL. Furthermore, a global annual ceiling would be defined in the sense that the number of compensated meetings would be limited in the case of crisis.

After discussion, the Board considers that the proposed evolution of the compensation of non-executive directors is in the interest of the company since, within the context of the global annual ceiling granted by the annual shareholders' meeting on 10 May 2006, it allows a harmonisation of the compensation of directors of Dexia and Dexia Crédit Local and account to be taken of the role of Chairman of the Audit Committee. It also allows stimulation and encouragement of the attendance of all non-executive directors at the Audit Committee, a committee which deals with matters vital to the Group.

**Decision:** on the proposal of the Appointment and Compensation Committee, the directors who can take part in voting approve the planned harmonisation of compensation granted to non-executive directors, with the exception of the Chairman of the Board for whom compensation remains unchanged.
These new terms of compensation will enter into effect on 1 January 2015 subject to approval by the competent bodies of Dexia Crédit Local of the decisions which concern the latter..

### Specialist committees set up by the Board of Directors

To make an in-depth examination of the files submitted to it, until 12 March 2015 the Board of Directors had three specialist committees, namely the Audit Committee and the Appointment and Compensation Committee in accordance with the requirements of the Companies Code, and the Strategy Committee.
Since 12 March 2015, in order to take account of the spirit of transposition into Belgian law and French law of the European Banking Directive CRD IV, the Audit Committee was split, subject to the supervisory authority's approval, into on the one hand an Audit Committee competent for Dexia and Dexia Crédit Local, and on the other hand a Risk Committee competent for Dexia and Dexia Crédit Local. It was also decided to split the Appointment and Compensation Committee into an Appointment Committee on the one hand and a Compensation Committee on the other hand, both also competent for Dexia and Dexia Crédit Local.
These committees are responsible for preparing the Board's decisions, with the latter being its only responsibility. Unless they have been specially delegated by the Board, the specialist committees have no decision-making powers. These committees are made up of Board members appointed by the Board of Directors for a two-year period, which may be renewed. After each meeting, a report on the committee's work is submitted to the Board of Directors.

### Audit Committee

In accordance with Article 526bis of the Companies Code, the Audit Committee is made up exclusively of non-executive directors, among whom two independent directors, including the committee chairman, meet the criteria set out by Article 526ter of the Companies Code. The committee has the necessary audit and accounting expertise.
As indicated above, the Dexia Board of Directors decided at its meeting on 12 March 2015, with immediate effect, subject to the supervisory authority's approval, to split the Audit Committee into an Audit Committee and a Risk Committee. In order to retain a simplified and unified Group management, this committee was created at holding company level and will be competent both for Dexia and its subsidiary Dexia Crédit Local.

#### Activities during the 2014 financial year

The Audit Committee met six times in 2014 and dealt in particular with the following matters:
- Group financial statements;
- Group's liquidity position;
- Risk position through the Quarterly Risk Report;
- Action to desensitise structured loans in France;
- Permanent Control, Internal Audit and Compliance work;
- Situation in terms of legal disputes;
- Conclusions from missions by the banking supervisory authorities.

#### Composition

The Audit Committee is made up of four directors (all non-executive), including two independent directors.
The composition of the committee is as follows:
- Paul Bodart, independent director and chairman of the Audit Committee;
- Bart Bronselaer, independent director;
- Koen Van Loo;
- Thierry Francq

#### Attendance of each individual director

The individual attendance rate for directors at the Audit Committee's meetings was 96% in 2014.

**ATTENDANCE RATE OF EACH DIRECTOR AT MEETINGS OF THE AUDIT COMMITTEE**

| | |
|---|---|
| Paul Bodart | 100% |
| Bart Bronselaer | 100% |
| Koen Van Loo | 100% |
| Thierry Francq | 75% |

#### Remit

The Audit Committee examines the Group's draft annual, half-year and quarterly statutory and consolidated financial statements, which must then be presented, approved and published by the Board of Directors.
It examines all matters relating to those accounts and to the financial reports and in particular, from the documents submitted to it, checks the conditions for their preparation, the choice of accounting principles, the impairments, the observance of prudential standards, the relevance and permanence of the accounting principles and methods applied and the adequacy of the consolidation scope adopted.
The committee advises the Board of Directors on financial communication of the quarterly results and on delicate and sensitive matters which may have a significant impact on the accounts.
The committee's mission also includes supervising the performance of the internal control system put in place by the Management Board and the system for managing the risks to which the entire Group is exposed in carrying out its activities. From this point of view, the committee ensures the performance and independence of operations of the Internal Audit and Compliance departments. The committee also examines the reports on the Group's legal risks presented by Secretary General.

#### Operation

The Audit Committee meets at least four times per year. Each meeting must take place before the meeting of the Board of Directors which analyses and approves the accounts. The committee may meet at any time on the request of one of its members.
The Audit Committee's remit and operations are described in the Board of Directors' internal rules.
The Audit Committee may if necessary ask for assistance from an expert. Moreover, in order to improve the reading of files by directors in the company's interest, the Board of Directors decided, at its meeting held on 12 March 2015, that all the members of the Board of Dexia Crédit Local (including the representatives of the Belgian and French authorities as well as the two independent directors of Dexia Crédit Local) would be invited to meetings of the Audit Committee.

### Appointment and Compensation Committee

#### Composition

In accordance with Article 526quater of the Companies Code, the Appointment and Compensation Committee is made up of five non-executive directors, including the Chairman of the Board of Directors, and the majority of its members are independent directors. The committee has the required expertise in matters of compensation policy. The head of the human resources department and the Chief Executive Offcier attend the meetings and the Secretary General may also be invited.
The composition of the committee is as follows:
• Robert de Metz, independent director and chairman of the committee;
• Paul Bodart, independent director;
• Bart Bronselaer, independent director;
• Koen Van Loo;
• Thierry Francq.
As indicated above, the Dexia Board of Directors decided at its meeting on 12 March 2015, with immediate effect, subject to the supervisory authority's approval, to split the Appointment and Compensation Committee into an Appointment Committee and a Compensation Committee. In order to retain a simplified and unified Group management, this committee was created at holding company level and will be competent both for Dexia and its subsidiary Dexia Crédit Local.

#### Remit

The committee makes proposals concerning:
• the appointment of directors and the renewal of their mandates;
• the elements of compensation for the Chairman of the Board of Directors and the Chief Executive Officer and, on a proposal from the latter, that of Management Board members.
Moreover, it is consulted with regard to the compensation policy and incentives for Group executives and officers. It makes recommendations on the amounts of attendance fees paid to directors and their breakdown. Within the framework of these remits, the committee deals with the recommendations, circulars and other international, French and Belgian regulations regarding compensation and corporate governance.
The committee prepares the Board of Directors' decisions in relation to:
• proposals for the appointment of directors and the renewal of their mandates made by the Board to the shareholders' meeting, as well as proposals for the co-opting of directors;
• determination of the independence criteria enabling a director to qualify as "independent";
• qualification of an existing or new member of the Board of Directors as an independent director;
• appointment of members of specialist committees of the Board of Directors and the respective chairmen;
• appointment of the Chief Executive Officer and renewal of his or her mandate;
• appointment of the Chairman of the Board and renewal of his or her mandate;
• proposals from the Chief Executive Officer concerning the composition, organisation and mode of operation of the Management Board of Dexia.
To this end, the committee is responsible for monitoring the practices of listed companies regarding the operation and composition of their Boards of Directors.

#### Operation and activities during the 2014 financial year

The Appointment and Compensation Committee met five times in 2014 and dealt in particular with the following matters.
• Governance: composition of the Board of Directors, specialist committees and the Management Board of Dexia and Dexia Crédit Local;
• Appointment of new directors or new Management Board members;
• Information with respect to the ongoing social procedures as well as strategy associated with the management of human resources to be developed in the company;
• Compensation policy of the Group;
• Legislative developments regarding the obligations of good governance in France and Belgium (cf. new Banking Law).

#### Attendance of each individual director

The individual attendance rate of directors at meetings of this committee was 95% in 2014.

**ATTENDANCE RATE OF EACH DIRECTOR AT MEETINGS OF THE APPOINTMENT AND COMPENSATION COMMITTEE**

| | |
|---|---|
| Robert de Metz | 100% |
| Paul Bodart | 100% |
| Bart Bronselaer | 100% |
| Koen Van Loo | 100% |
| Thierry Francq | 80% |

### Strategy Committee

#### Composition

The Strategy Committee is made up of five directors, including the Chairman of the Board of Directors, who chairs this committee. Its members are as follows:
• Robert de Metz;
• Delphine d'Amarzit;
• Thierry Francq;
• Koen Van Loo;
• Alexandre De Geest.

#### Remit

The Strategy Committee meets as often as necessary on the initiative of its chairman or as requested by one of its members, as relevant, involving external parties who are stakeholders in Dexia's development in the committee's work, if requested by its members, in order to assess its strategic positioning, considering changes in the Group's situation, the financial markets and their impact on the assumptions and parameters of the orderly resolution plan.

#### Operation and activities during the 2014 financial year

The Strategy Committee met once in 2014, notably to deal with the Asset Quality Review and stress tests performed by the European Central Bank.

#### Attendance of each individual director

The individual attendance rate for directors at the meetings of this committee was 100% in 2014.

## Dexia Management Board

The Management Board is entrusted with managing the company by the Board of Directors, which delegates its powers for this purpose, in accordance with Article 524bis of the Companies Code.

### Composition

The Management Board members, other than the Chief Executive Officer, are appointed and dismissed by the Board of Directors based on proposals from the Chief Executive Officer. With the exception of the Chairman, they are appointed for a renewable four-year period unless the Board of Directors decides otherwise. The Management Board is composed of the following members :

- **Karel De Boeck**, Chief Executive Officer
- **Pierre Vergnes**, Chief Financial Officer
- **Claude Piret**, in charge of Assets

### Remit

In accordance with Article 524bis of the Companies Code, the Management Board is entrusted with the management of the company and of the Dexia Group, for which it manages and coordinates the various business lines, in the context of the strategic objectives and the general policy defined by the Board of Directors. In addition, it ensures the execution of the decisions taken by the Board of Directors.

### Operation

Since the creation of Dexia in 1999, the Management Board has had its own internal regulations (the "Regulations"), amended on several occasions, determining its responsibilities and how it operates. In addition to rules governing the composition of the Management Board (see above), the Regulations include the following rules.

| EXECUTIVE COMMITTEE | MANAGEMENT BOARD | Composition as at 31 December 2014 |
|---|---|---|
| | | **Karel DE BOECK**<br>Chief Executicve Officer<br>Chairman of the Management Board |
| | | **Claude PIRET**<br>Head of Assets |
| | | **Pierre VERGNES**<br>Chief Financial Officer |
| | | **Johan BOHETS**<br>Head of General Secretariat, Legal and Compliance |
| | | **Benoît DEBROISE**<br>Head of Funding and Markets |
| | | **Marc BRUGIÈRE**<br>Chief Risk Officer |

#### • Rules relating to the responsibilities of the Management Board in its dealings with the Board of Directors

The Regulations first define the Management Board's responsibilities in its dealings with the Board of Directors. The Management Board must formulate a preliminary opinion regarding any proposals debated by the Board of Directors or the specialist committees relating to the Group's strategy or general policy, whether these proposals are made by the Chief Executive Officer or other directors. It may make recommendations to the Board of Directors through the Chief Executive Officer.
If the Chief Executive Officer takes part in discussions by the Board of Directors or its specialist committees, for which the Management Board has an acknowledged right of opinion or initiative, the Chief Executive Officer presents to and defends with the Board of Directors the points of view previously debated by the Management Board.

#### • Rules relating to decision-taking

The Management Board operates on a collegial basis and its decisions result from a consensus of its members. It assumes joint responsibility for such decisions. If applicable, the Chairman of the Management Board may, on his own initiative or on request from two other members, submit the issue under debate to a vote. Resolutions are adopted by a majority vote of all members present or represented. In the event of a tied vote, the Chairman will cast the deciding vote. In exceptional cases, decisions may be taken by the Management Board in writing with the unanimous consent of its members.

#### • Rules relating to meetings

Management Board meetings are convened by its Chairman, in principle once a week. If necessary, meetings can be convened at any time by the Chairman or if two or more members so desire. Any member of the Management Board who is unable to attend may be represented by another member of the Board, but a member may not represent more than one other member. Each member of the Board may propose an item for the agenda, which is set by the Chairman.

#### • Conflicts of interest

Notwithstanding any legal or regulatory obligations, a member of the Management Board who directly or indirectly has a conflicting financial interest in a decision or operation to be decided by the Board must inform the other members of the Board before they deliberate. The member in question's declaration, including the reasons for the conflicting financial interest, must be recorded in the minutes of the Management Board meeting scheduled to take the decision. In addition, the Management Board member must inform the company's statutory auditors. This member cannot participate in the Management Board's deliberations in relation to the transactions or decisions concerned, or vote on them.

#### • Transactions between Management Board members and Group companies

Transactions between Dexia Group companies and Management Board members must be entered into under normal market conditions.

#### • Transactions on Dexia financial instruments

The Management Board's internal regulations were amended in order to update the rules relating to the prevention of insider trading in relation to Dexia financial instruments.

*The Executive Committee, from left to right: Johan Bohets, Claude Piret, Pierre Vergnes, Karel De Boeck, Benoît Debroise and Marc Brugière.*

## Executive Committee

To support the Management Board, the Board of Directors of 19 February 2014 created, effective from 1 March 2014, a new enlarged committee that meets weekly and has the objective of ensuring the operational management of the Group. The Executive Committee is composed, besides the Management Board members, of the following persons:

- **Johan Bohets**, Secretary General, in charge of Legal and Compliance;
- **Benoît Debroise**, in charge of Funding and markets.
- **Marc Brugière**, Chief Risk Officer;

## Group Committee

The Group Committee is an exchange platform that meets twice a month and consists of the members of the management of Dexia, meeting in extended format, and the heads of the Communication, Operations and Information Systems, Financial Management, Risk Reporting, Metrics and Quantification, Human Resources divisions and, since 1 January 2014, the Transformation division, namely:

- **Véronique Hugues**, in charge of Financial Management;
- **Caroline Junius**, in charge of Communication;
- **Christine Lensel Martinat**, in charge of Operations and Information Systems;
- **Michael Masset**, in charge of Human Resources;
- **Wim Ilsbroux**, in charge of Transformation;
- **Thomas Guittet**, in charge of Audit, who attended but was not a member (Thomas Guittet has been replaced by Rudolph Sneyers since 1 April 2014).
- **Rudolph Sneyers** in charge of risk reporting, metrics and quantification (Rudolph Sneyers has been replaced by Thomas Guittet since 1 April 2014);

Furthermore, the Group Committee can meet the Heads of the major international entities or branches which are Dexia Crediop, Dexia Kommunalbank Deutschland and Dexia Crédit Local New York Branch.

## Transaction Committee

Within the framework of the company project and to simplify the operational conduct of the Dexia Group, on 3 April 2014 Group management approved the creation of a new transversal committee called the "Transaction Committee".

In accordance with the delegations made by the Management Board, the task of the Transaction Committee is to approve each individual transaction which might have an impact on the risk and/or financial profile of the Group and its entities, including international subsidiaries and branches. It replaces the Credit committee and the Finance and Liquidity Committee.

The Transaction Committee has met on a weekly basis since 15 May 2014 and includes the heads of the "Assets", "Funding and Markets", "Finance", "Risk" and "General Secretariat, Legal and Compliance" support lines, namely Messrs Claude Piret, Benoît Debroise, Pierre Vergnes, Marc Brugière and Johan Bohets. Decisions are taken by unanimity of the members voting and in the event of absence its members may be represented. The secretary of the committee is provided by the General Secretariat of the Dexia Group.

# Compensation Report

## Compensation of Dexia directors for 2014

### Review of the principles applied

Dexia's 2006 ordinary shareholders' meeting decided to pay an annual maximum global compensation amount of EUR 1,300,000 to the directors for their services, effective 1 January 2005.
This meeting also authorised the Board to determine the practical procedures of this compensation and its allocation which comprises a fixed amount and attendance fees.
At its meeting on 23 May 2002, the Board of Directors decided to grant each director a fixed annual compensation of EUR 20,000 (or fixed amount of EUR 5,000 per quarter), and attendance fees of EUR 2,000 per Board meeting or specialist committee meeting. Directors who have been in office for less than one full year shall earn a proportion of the fixed fee based on the number of quarters during which they have effectively been in office.
At its meeting on 16 December 2014, the Board of Directors decided to amend and harmonise the terms of compensation for non-executive directors, of Dexia and of Dexia Crédit Local (with the exception of the Chairman whose compensation remains unchanged. These changes have been implemented since 1 January 2015.
From 1 January 2015, the compensation of non-executive directors (excluding the Chairman of the Board of Directors) consists of a fixed compensation of EUR 3,000 per quarter (consolidated at the level of the Board of Dexia Crédit Local) and attendance fees of (EUR 2,000 for meetings of the Board of Dexia and Dexia Crédit Local and the Audit Committee and EUR 1,500 for meetings of the Appointment and Compensation Committee). The Chairman of the Audit Committee is compensated for his position (attendance fees would be raised to EUR 3,000 per meeting). From 12 March 2015, the date of introduction of the above new committees, attendance fees are EUR 1,000 for meetings of the Audit Committee and the Risk Committee, and EUR 750 for the meetings of the Appointment Committee and the Compensation Committee.
In addition, in order to improve the consideration of files by directors in the corporate interest of the company, all members of the Board of Dexia Crédit Local (including the representatives of the Belgian and French authorities and the two non-concerned directors Dexia Crédit Local) would be convened to meetings of the Audit Committee (and from 12 March 2015, the Risk Committee) and compensated for their attendance.
Lastly, attendance fees are reduced by 50% for any meeting of the Board of Directors organised at the same time as a meeting of another Board. Furthermore, an annual global ceiling is defined in the sense that a maximum number of meetings will be compensated.
Non-executive directors receive no performance-related compensation, such as bonuses or long-term incentives, or any benefits in kind or benefits associated with pension plans.

### Compensation paid to the Chairman of the Board of Directors

On 2 August 2012, the Board of Directors set the gross compensation of the Chairman of the Board of Directors, on a proposal from the Appointment and Compensation Committee, namely a fixed global annual compensation of EUR 250,000.

### Compensation paid to the Chief Executive Officer

The Chief Executive Officer does not receive any compensation for his position as a director. However, he is remunerated for his responsibilities as Chief Executive Officer and Chairman of the Management Board (see hereafter).

### Payment of social security contributions for certain directors

All Dexia Board members are considered in Belgium as self-employed workers and must therefore join an independent workers' pension scheme and, in principle pay social insurance. Some Board members already benefit from social insurance under another system and may therefore be required to pay contributions in Belgium simply because of their office held with Dexia without benefiting from increased social insurance protection.
For instance, this is the case for Board members not resident in Belgium who already benefit, in their country of residence, from social insurance and who are required to contribute in Belgium to an unrecovered annuity. Likewise, a Board member resident in Belgium who is subject to the salaried employee system or to the system applicable for public servants as a principal activity and who is required to contribute as an independent worker additionally because of their office held in Belgium without benefiting from increased social insurance compared with what they already qualify for because of their principal activity.
In order to offset the unrecovered social security cost paid by directors who are in this position (subject to an annual review in order to reflect changes in status), the ordinary shareholders' meeting of 10 May 2006 decided that Dexia will pay the unrecovered social security contributions and the other amounts owed for serving as a director of Dexia and, therefore, raised the maximum limit for directors' compensation from EUR 700,000 to EUR 1,300,000.
To qualify for this payment, directors must meet the conditions required. The amount of the contributions paid by Dexia in 2014 totalled EUR 17,861.40.

**COMPENSATION FOR SERVING AS A DIRECTOR OF DEXIA AND OTHER GROUP ENTITIES**

| (gross amounts in EUR) | BoD (fix. comp.) | BoD (var. comp.) | Strategy Committee | Audit Committee | Appointment & Compensation Committee | Total 2014 | Total 2013 | Other Group entities 2014 (3) | Other Group entities 2013 |
|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | |
| R. de Metz(2) | 250,000 | 0 | 0 | 0 | 0 | 250,000 | 250,000 | 0 | 0 |
| K. De Boeck | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| P. Vergnes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| B. Bronselaer(2) | 10,000 | 18,000 | 0 | 10,000 | 8,000 | 46,000 | 54,000 | 15,000 | 13,500 |
| K. Van Loo | 10,000 | 18,000 | 2,000 | 10,000 | 8,000 | 48,000 | 54,000 | 15,000 | 15,000 |
| P. Bodart(2) | 10,000 | 18,000 | 0 | 10,000 | 8,000 | 46,000 | 50,000 | 15,000 | 13,500 |
| A. De Geest | 10,000 | 18,000 | 2,000 | 0 | 0 | 30,000 | 34,000 | 15,000 | 13,500 |
| Th. Francq(1) | 10,000 | 16,000 | 2,000 | 8,000 | 6,000 | 42,000 | 37,500 | 15,000 | 12,000 |
| D. d'Amarzit(1) | 10,000 | 16,000 | 2,000 | 0 | 0 | 28,000 | 21,500 | 15,000 | 9,000 |

*(1) In accordance with Article 139 of the French Law on the new economic regulations, attendance fees for mandates performed by representatives of the French government are to be paid to the French government account.*
*(2) Independent directors.*
*(3) Compensation received for the director's mandate in Dexia Crédit Local.*

# Compensation of members of the Dexia Management Board for 2014

## Introduction

### Procedure

The compensation of Management Board members is set by the Board of Directors of Dexia based on proposals from the Appointment and Compensation Committee (from 12 March 2015, the Appointment Committee).
The committee analyses the levels of compensation of Management Board members with regard to compensation granted in other companies in the sector.
In this respect, compensation consultants might be used to obtain information on salary developments on the labour market for the financial sector.
Considering these benchmarking analyses, the committee proposes to the Board of Directors that they make possible adaptations in terms of compensation which, if necessary, would be justified by changes in the markets, while taking account of the company's situation.

### Regulatory context

Compensation for executives of companies in the financial sector has been governed by numerous new regulations for several years.
The Board of Directors undertook to respect this new regulatory framework, taking changes to it into consideration on the basis of national and international provisions aimed at strengthening corporate governance, particularly in terms of compensation, as well as based on circulars and communications from the supervisory authorities.

A global compensation policy for the Dexia Group, in accordance with the Belgian Law of 25 April 2014 on the status and control of credit institutions (Banking Law), as well as principles regarding sound compensation practices, has been adopted and forwarded to the supervisory authorities.
Dexia's compensation policy has been prepared by the Human Resources department in conjunction with the Audit, Risk and Compliance departments, and submitted to Dexia's Appointment and Compensation Committee.
The Committee's proposals were submitted to the Board of Directors of Dexia which approved the Group compensation policy.
Dexia's compensation policy, updated in April 2013 to reflect the changes in the Group since October 2011, incorporates undertakings made by the Belgian and French states to the European Commission. On the one hand, the compensation policy sets out the general principles for all Dexia Group staff. On the other hand, observing the principle of proportionality, it contains specific provisions exclusively applicable for a population identified as liable to impact the Dexia Group's risk profile in view of the nature or level of their functions and/or compensation.
The compensation policy and its implementation are regularly assessed in order to identify any provisions requiring adaptations, notably as a result of new legal or regulatory provisions coming into force.

## Compensation for Management Board members

### Breakdown of compensation

Compensation for Management Board members is now based exclusively on a fixed element, with no performance conditions, and constitutes a whole from which, unless the Board of Directors decides otherwise on a proposal from the Appointment and Compensation Committee, a deduction is made of any director's fees or percentage paid to a Management Board member by a Dexia Group company or by a third party company in which an office is held in the name and on behalf of Dexia.

Since then, no variable compensation was or will be awarded in relation to 2014 to the Management Board.

Moreover, in accordance with the undertakings made by Dexia within the framework of the 2013 guarantee agreement concluded with the Belgian, French and Luxembourg States and for so long as guaranteed bonds are outstanding or liable to be issued, and unless agreed with the states, Dexia shall not award any stock options, warrants or free shares or pay any elements of variable compensation, indemnities and benefits indexed to performance, or deferred compensation to the following: Chairman of the Board of Directors, Chief Executive Officer(s) and members of the Board of Directors.

Dexia has voluntarily extended this restriction to include all the members of the Group Management Board.

### Compensation in respect of 2014

Fixed compensation may comprise basic compensation and a function premium paid quarterly.

The basic compensation is determined considering the nature and importance of the responsibilities assumed by each individual and taking account of market references for positions of a comparable dimension.

**SUMMARY TABLE OF THE BASIC COMPENSATION AND FUNCTION PREMIUMS FOR THE CHAIRMAN OF THE MANAGEMENT BOARD IN 2014**

| (in EUR) | Basic compensation | Function premiums |
|---|---|---|
| Karel De Boeck | 600,000 | |

**SUMMARY TABLE OF THE BASIC COMPENSATION AND FUNCTION PREMIUMS FOR OTHER MANAGEMENT BOARD MEMBERS IN 2014 [(1)]**

| (en EUR) | Basic compensation | Function premiums |
|---|---|---|
| Other members of the Management Board | 1,255,000 | 121,000 |

*(1) Messrs Claude Piret and Pierre Vergnes, as well as Mr Philippe Rucheton for the months of January to March, and for the months of January and February Messrs Johan Bohets, Marc Brugière and Benoît Debroise.*

## Discretionary pensions for Management Board members[(1)]

Management Board members linked to Dexia by a management agreement benefit from a discretionary complementary pension scheme set up by Dexia.

### Characteristics of applicable discretionary pension schemes

The supplementary pension schemes from which Management Board members benefit under a contract with Dexia give a right, at the time of retirement, to capital built up through the capitalisation of annual contributions. These represent a fixed percentage of a capped annual fixed compensation.

### Amounts paid within the framework of complementary pension schemes

Annual premiums of EUR 217,741.93 were paid in 2014 for the Management Board members, including EUR 120,967.74 for the Chief Executive Officer.

*(1) Holders of a mandate in force on 31 December 2014.*

## Supplementary cover for death, permanent invalidity and medical costs

Collective annual premiums of EUR 153,812.09 were paid in 2014 for the Management Board members[(2)] for supplementary cover for death, permanent invalidity and the costs of medical treatment, including EUR 86,712.69 for the Chief Executive Officer, broken down as follows:

| DISCRETIONARY PLANS | (in EUR) |
|---|---|
| Death, orphan capital | 64,364 |
| Invalidity | 21,370.1 |
| Hospitalisation | 978.72 |

## Other benefits of Management Board members[(3)]

| SUMMARY TABLE OF BENEFITS AWARDED TO THE CHAIRMAN OF THE MANAGEMENT BOARD | (in EUR) |
|---|---|
| Representation fees | 6,324 |
| Car [(1)] | |

*(1) In 2014 Mr Karel De Boeck did not wish to exercise his right to a company car being used for private purposes.*

*(2) Holders of a mandate in force on 31 December 2014..*
*(3) Holders of a mandate in force on 31 December 2014.*

| SUMMARY TABLE OF BENEFITS AWARDED TO OTHER MANAGEMENT BOARD MEMBERS(1) | (in EUR) |
|---|---|
| Other benefits(2) | 17,161.16 |

*(1) Holders of a mandate in force on 31 December 2014.*
*(2) This amount includes lump-sum indemnities for attendance fees and the tax advantage associated with the provision of a company car also being used for private purposes.*

## Option plan

During 2014, no options were exercised or awarded to Management Board members.

## Conditions relating to departure

### Provisions relating to severance pay within Dexia's compensation policy

Under Dexia's compensation policy for the Management Board members, the total amount of benefits granted will not exceed 12 months of fixed and variable compensation. Under specific circumstances, the Appointment and Compensation Committee may, with its substantiated opinion, propose to the Board of Directors that there be severance pay above 12 months but not exceeding 18 months of fixed and variable compensation. Severance pay exceeding 18 months of fixed and variable compensation can only be agreed exceptionally with the approval of the first shareholders' meeting thereafter.
Moreover, the agreement providing for severance pay to be awarded will contain a performance condition in the sense that the contractual leaving indemnities will be reduced in the case where the performance assessment of the executive over the two years preceding the termination of the agreement reveals a significant deterioration in those performances. This is intended to avoid that severance pay would be rewarding a failure.
These principles will be applied in accordance with the collective bargaining agreements and legal provisions.
Any severance benefits agreement entered into with a Management Board member since the Dexia Group compensation policy came into force, as adopted in 2011, will respect these provisions. Dexia will review when needed its compensation policy in order to ensure conformity with possible laws and regulations which might be adopted in the future.

### Departures during the year 2014

The mandate of Mr Philippe Rucheton ended on 31 March 2014, in view of his departure on retirement.

### Provisions relating to severance pay contained in management agreements with Management Board members(1)

Mr Karel De Boeck is entitled, if his contract is terminated by Dexia on grounds other than of serious misconduct, to a single inclusive benefit payment representing three months of compensation. If Mr Karel De Boeck terminates his contract under the same conditions, he must give Dexia three months' notice.
The party that, during Mr. Claude Piret's term of office, terminates the agreement concluded between Mr. Claude Piret and Dexia, other than for serious breach by the other party, shall notify the other party taking into account a notice period of 1 month.

### Provisions relating to severance pay in employment contracts of Management Board members(2)

The termination of Mr Claude Piret's employment contract (the execution of which is suspended for the term of his mandate with the Management Board) is governed by Belgian legislation relating to employment contracts. His employment contract stipulates moreover that he will be entitled, without prejudice to any mandatory legal provisions, if his contract is terminated by Dexia before he reaches the age of 65, to a benefit payment equal to the fixed and variable compensation and other benefits corresponding to a 24 month period.
If his employment contract is terminated on a ground other than serious act or omission, Mr Pierre Vergnes may claim prior notice (or a termination indemnity) equivalent to 7 months of fixed compensation(3) including the notice and/or indemnity for notice legally due, as the case may be. The right to this indemnity for notice and/or notice is subject to certain conditions including the proper execution of the contract until the date of termination.

*(1) Holders of a mandate in force on 31 December 2014.*
*(2) Holders of a mandate in force on 31 December 2014.*
*(3) As agreed on the entry into force of his mandate as a Management Board member.*

# Internal control and risk management system

## Principal characteristics of the internal control system and risk management

### Internal audit framework and missions

Internal control is a process which provides reasonable assurance that the objectives of the organisation, the effectiveness and efficiency of its operations, the reliability of its financial information and compliance with the laws and regulations reach the desired level. As with any control system, it is conceived to reduce the residual risk to a level accepted by Dexia's requirements.
More specifically, the tasks assigned to internal control in force within Dexia may be grouped together in five principal lines:
• to verify the effectiveness of the risk management process: the internal control function is designed to provide the Management Board with a guarantee that the risks assumed by the Group are compatible with the policy established by the Board of Directors and the Management Board, and with the level of risk accepted;
• to ensure that the accounting and financial information produced is accurate and relevant: the principal objective of financial information is to give a true image of Dexia's situation on a regular, complete and transparent basis. The internal control system is focused on achieving this objective;
• to ensure compliance with all regulations and rules concerning ethics and compliance, both internal and external: for the Dexia Group to operate properly, this requires strict compliance with the legislative and regulatory obligations in each of the countries in which it is established, as well as the standards it sets itself beyond those obligations, particularly regarding corporate governance, compliance or sustainable development. The internal control system aims to ensure that these principles are observed;.
• to improve the functioning of Dexia by ensuring the effective management of all available resources: the decisions taken by the Management Board for that purpose must be able to be put into practice quickly. The internal control procedures ensure the integrity of information flows, the compliance of the initiatives set in place and the verification of all results;
• to ensure the effectiveness and operational efficiency of all the business lines: the proper functioning of operational processes is of constant concern at all levels of the decision-making process. Many initiatives have been taken to ensure this goal, in constant collaboration with the business line and support entities that also measure these initiatives using indicators and regular reports.
Dexia has established a range of procedures and controls as part of the organisation of the internal control system designed to improve the Group's compliance with all regulations and capital adequacy policies, while ensuring that available resources are managed effectively.

### General architecture of the mechanism

The general architecture of the internal control system is based on a series of basic principles, which are adapted to all of the business lines and support functions.
The Dexia Group's internal control system is based on activities incorporated into all operating, support, management, accounting and other processes, which the Group's management is responsible for monitoring continuously, with successive levels of control.
In addition there is a clear separation of functions conceived to maintain and guarantee a clear distinction between the operators involved in an action or transaction and those charged with validation, monitoring or regulation.
From this perspective, the general architecture of the Dexia Group's internal control system is based on an organisation split into three levels:
• **The first level of control** is performed by each employee and their superiors, in accordance with responsibilities that have been expressly delegated to them, procedures applicable to the activity they perform, and with instructions provided to them;
• **The second level of control** is performed by specialist functions, independent from the operations controlled and which report directly to the Management Board. The fields concerned are, for example, compliance, permanent control (a function which supervises controls) and risk management;
• **The third level of control** is performed by the Dexia Group audit function, which is responsible for continuously ensuring the efficient and effective performance of both of the levels of control defined above, within the holding company and all of its subsidiaries and branches.

### The main internal control participants

In order to ensure the proper functioning and development of the Dexia Group, its Management Board is responsible in the last resort for the introduction and maintenance of an appropriate internal control system. It defines and coordinates the Dexia Group's management policy within the context of the strategy defined by the Board of Directors. It allocates the means and sets the deadlines for the implementation of actions decided within the framework of this policy. It checks that the given objectives are achieved and that the internal control system is appropriate for all requirements. Lastly, it adjusts these requirements in relation to the internal and external developments observed.
The departments most specifically concerned by internal control are the following:
• **Compliance**, under the responsibility of the Secretary General, runs the compliance support line through the different entities and ensures compliance with the policy of integrity and the development of the ethical culture and professional ethics.
• **Permanent Control**, since 1 April 2014 reporting to the Compliance and Permanent Control department, is in charge of the execution of second level controls.
• **The Operational Risk Management Team**, under the responsibility of the Chief Risk Officer (CRO), is in charge of the identification, assessment, monitoring and management of operational risks.
• **Internal Audit**, reporting directly to the Chief Executive Officer, Chairman of the Management Board, defines the methodology used in the Group, defines the Group audit

plan, coordinates, runs and performs audit tasks, and monitors action plans associated with recommendations from Internal Audit and the banking supervisory authorities.
For its internal control supervision mission, Dexia's Board of Directors is supported by the Audit Committee, the operations and remits of which are described above.

## Internal Audit

### a. Organisation and governance

#### Role of the internal audit function

Internal Audit is an independent and objective activity giving the Board of Directors and the Management Board of the Dexia Group assurances concerning the quality and effectiveness of its internal control system, risk management and governance systems and procedures, contributing towards the protection of the Group's interests and reputation.
It considers all the objectives of the organisation, analyses the risks associated with those objectives and periodically assesses the robustness of the controls in place to manage those risks. Internal audit then provides management with an assessment of the residual risks so that management can validate the appropriateness for the global risk profile desired for the Dexia Group. Lastly, internal audit proposes actions to management to strengthen the effectiveness of controls.
The internal audit function also assists the Boards of Directors of all Group entities in their supervisory role through Audit Committees.
In line with international standards, a Dexia Group Audit Charter sets out the fundamental principles governing the internal audit function within the Group and describing its objectives, role and responsibilities, as well as how it operates. This charter was updated in June 2014 to take account of the Group's new configuration.
So that each Dexia Group employee can appreciate the importance of the internal audit function's role within the Dexia Group's internal control and management support systems, the audit charter has been published on the Dexia website *(www.dexia.com)*.

#### Guidelines

The strategy, the level of requirements and the rules of operation for internal audit within the Dexia Group are set by the Dexia Management Board, within the framework approved by the Board of Directors, through its Audit Committee. This framework takes account of the requirements, legislation and local regulations and instructions from the prudential control authorities.
The independence and effectiveness of the audit function are guaranteed by applying the following principles:

- each internal audit department reports directly to the highest level of authority within the entity for which it is responsible;
- the absence of involvement in the organisation and operational management of Group entities. The Group Management Boards may exceptionally call on internal audit for opinions, advice or assistance. The rules relating to those duties are defined in title 9 of the audit charter.
- unconditional and immediate access to information: under the terms of its assignment, the internal audit function has access to all the information, documents, premises, systems and persons within the entity for which it is responsible, including all management reports and the minutes of and information packages prepared for any advisory and decision-making bodies. The Dexia Group Internal Audit department has access to all the information in all Group entities. Any breach of these principles is liable to be reported to the Management Board and, if relevant, the Audit Committee;
- the provision of the means necessary to perform its task: Internal Audit receives from the Group's Management Board the means necessary to perform its task so as to respond constantly to changes in the Group's structures and environment.

At an individual level, each auditor must show the greatest professionalism and have ongoing training to ensure their mastery of the rapid changes to audit, banking, financial and IT techniques and those for combating fraud. Training needs are assessed in periodic and annual assessments. Statutory Auditors are required to comply with the Dexia Group's rules of professional ethics, as well as those specific to their profession. This means observance of the following fundamental principles:

- Integrity: the integrity of internal auditors is the basis for confidence in and the credibility of their judgement;
- Objectivity: auditors must show the highest degree of professional objectivity in collecting, assessing and communicating information relating to the activity or process examined. Internal auditors fairly assess all the relevant elements and are not influenced in their judgement by their own interests or those of others;
- Confidentiality: internal auditors have a duty of professional secrecy, they respect the value and ownership of the information they receive and only disclose this information with the required authorisations, unless a legal or professional obligation forces them to do so;
- Competence: internal auditors use and apply the knowledge, know-how and experience required for the performance of their tasks.

#### Scope for intervention

All the Dexia Group's activities, processes, systems and entities are within the scope of action for internal audit, without any reservations or exceptions. The scope includes all processes, whether operational, support, management, corporate governance and risk management and control processes. Outsourced essential activities also fall within the audit scope, given that operational services are responsible for organising the conditions for the possibility of audits by including audit clauses in service agreements.
Other than exceptions associated in particular with requests from the supervisory authorities, the audit scope does not however cover the activities of companies in which the Dexia Group only holds a minority interest. However, Dexia's representative on the Board of Directors is responsible for learning about the state of the internal control mechanism and, if necessary, alerting the Management Board and the audit department of the entity which holds that interest.

#### Organisation of the function

##### Principles

The Dexia Group internal audit function operates as an integrated support line composed of the Audit department of Dexia /Dexia Crédit Local and the Audit departments of subsidiaries and branches.
The support line is headed by the General Auditor of Dexia, who is also the General Auditor of Dexia Crédit Local, who reports to the Chief Executive Officer of Dexia (also Chief Executive Officer of Dexia Crédit Local). The General Auditor

periodically reports to the general management and the Audit Committee, on the tasks, powers and responsibilities of internal audit, the degree of implementation of the audit plan and the assessment of the internal audit environment.

The audit departments of the subsidiaries/branches are under the responsibility of a General Auditor or a head of internal audit. The General Auditors of Group subsidiaries report to the General Auditor of Dexia /Dexia Crédit Local. The General Auditor of Dexia /Dexia Crédit Local is responsible, in particular, and in association with the Chief Executive Officer of the entity concerned, for their appointment, setting their targets and their annual assessment. The auditor recruitment plans and the establishment of the budget for the audit departments of the main entities are also examined jointly. The heads of the internal audit teams of branches report to the General Auditor of Dexia/Dexia Crédit Local.

Each audit department is responsible for performing their task to the Chairman of the Management Board, to the extent that local rules permit, and to the Board of Directors of that entity, possibly assisted by an Audit Committee.

Each Auditor General attends meetings of the Management Board of his entity (i) when the Committee in question asks him to, (ii) when he presents an audit report or (iii) on his request when he wishes to raise a particular point within the framework of his attributions and responsibilities. He receives the agenda and files prepared for these meetings, as well as the minutes.

Each General Auditor has direct access to the Chairman of the Board of Directors, to members of the Audit Committee and the auditors of his entity. The Auditor General of any Group entity also has direct access to the General Auditor of Dexia/Dexia Crédit Local.

The Chairman of the Board of Directors of each entity may delegate certain tasks. Tasks performed within this framework are the subject of a report to the Audit Committee like other tasks performed by Audit.

### Organisation of an Audit function

When a Dexia Group entity exercises control over a subsidiary or, if there is no such control, when the supervisory authorities expressly so request, then an audit function is established in that subsidiary. If the creation of an audit function is not considered relevant, the parent company will perform the local audit function and if necessary a service level agreement (SLA) is concluded with the parent company.

### Management of the Audit support line

In order to manage the support line, the Audit Department of Dexia/Dexia Crédit Local ensures the appropriateness of the organisation of the internal audit in place in the Dexia Group as a whole and the quality of its operation.

The Audit Department of Dexia/Dexia Crédit Local is responsible for:

• the Audit strategy and its proper implementation in all Dexia Group audit departments;

• the definition and application of a common methodology for analysing risks, performing tasks and monitoring recommendations made;

• the optimum allocation of competences within the function and determining the level of training required of auditors throughout the Group;

• the coordination and assessment of training programmes;

• the attribution and monitoring of the operating budget of each local audit department.

#### Relations with the supervisory authorities and statutory auditors

Internal audit maintains regular dialogue with the banking supervisory authorities and external auditors (Réviseurs d'Entreprises, Commissaires aux Comptes) on subjects of common interest.

Internal audit is responsible for coordinating and centralising exchanges, whether incoming or outgoing, with the various banking supervisory authorities, whatever the support line concerned. Internal audit is also responsible for coordinating the inspection tasks of the various supervisory authorities. In this context, the General Auditor or the head of audit for the entity is the point of contact for the supervisory authorities. He coordinates the process of gathering data within the entity and the responses to inspection reports or to requests for additional information. Internal audit also monitors recommendations made by the supervisory authorities under the same conditions as for recommendations made by internal audit.

In order to avoid any duplication of tasks, internal audit maintains regular exchanges with the external auditors on internal control matters. These exchanges are aimed at sharing observations made by both parties on internal control matters and ensuring the complementary nature of the work carried out.

## b. General overview of activities in 2014

In 2014, internal audit tasks covered most of the Group's major support lines. In particular, the following activities were audited: long-term funding and liquidity, the control of credit models and the implementation of EMIR regulations. Moreover, a complete review of payment processes and the Compliance mechanism excluding money laundering aspects was performed.

Among the tasks at an international level, collateral management in New York was reviewed and local IT security as well as local IT security and governance functions. The implementation rate of the 2014 audit plan was acceptable for DexiaSA/Dexia Crédit Local scope as it was for the various subsidiaries and branches of Dexia Crédit Local.

Contacts with the Dexia Group's various supervisors, whether through inspection tasks or meetings, continued in 2014 to take up a considerable amount of the internal audit staff's time, particular with the comprehensive assessment made by the European Central Bank. Moreover, a task was performed at Dexia Crédit Local and its French banking subsidiaries by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) on the governance of the Dexia Group.

## c. Inspection Unit

#### Role

The inspection unit's role is to contribute, independently and objectively, to controlling fraud risks. It intervenes in awareness, prevention and dissuasion, detection and investigation actions and proposes and monitors corrective measures.

#### Organisation and governance

The Inspection unit performs its tasks within the Internal Audit Department and is responsible for the performance of its tasks in relation to the Group General Auditor.

Inspection performs these tasks for Dexia and Dexia Crédit Local, as well as for all the branches, subsidiaries and sub-subsidiaries depending on them, which do not have their own inspection function. The function is performed full-time

by an inspector reporting th the head of Internal audit and Ispection who in turn reports to the Group General Auditor. If necessary, the function is performed working closely with the head of internal audit for the entity concerned.
An Inspection Charter sets out the fundamental principles governing the function, describing the objectives, roles, powers, duties and responsibilities, terms of operation and the basic rules governing it, including rules of professional ethics.

**General overview of activities in 2014**
In accordance with the principles set out in the charter, the tasks performed by inspection in 2014 related to awareness, prevention and dissuasion actions, fraud monitoring and detection, enquiries in relation to suspicions of fraud, as well as data extraction, and, in support of the Legal Department, actions dealing with questions of legal authority. The unit's work related in particular to the treatment of external frauds described as "Fraude au Président", giving rise in particular to the implementation of staff information and awareness campaigns.

## Compliance

The compliance function is independent. It carries out its activities without any influence, interference or restrictions likely to affect its independence, its integrity, its impartiality and its objectivity.
The compliance function is an integral part of the internal audit mechanism of credit institutions and investment companies. The Compliance department at Dexia ensures the coherence and effectiveness of managing non-compliance risks. The compliance function is organised as a support line, from the Dexia Group holding company to the subsidiaries and branches of Dexia Crédit Local.
The role and relevant fields of the compliance function as well as the governance principles underlying the approach adopted by Dexia with regard to compliance are included in the compliance charter, which as approved and entered into force in 2009 and was updated in 2014.
The compliance fields are as follows:
• The fight against money laundering and the financing of terrorism including the prevention of tax fraud;
• The control of information relating to the tax situation of clients and counterparties to respond to existing regulations;
• Market abuse and personal transactions;
• Integrity of markets in financial instruments;
• Integrity vis-à-vis clients;
• Data protection and professional secrecy;
• Prevention of conflicts of interest vis-à-vis clients and counterparties;
• External mandates;
• Independence of the statutory auditors;
• Observing the principles stated by compensation policy and meeting legal requirements with regard to the expertise and professional honour of Management Board members, directors, heads of independent audit functions and executives;
• Internal warning system at Dexia;
• Other fields indicated by the Management Boards and Boards of Directors, considering the level of associated risk. In this regard the Compliance department of the Group and of Dexia Crédit Local guides the permanent control mechanism of the establishments concerned, including their subsidiaries and branches.

In the fields of competence listed above, the Compliance function performs the following tasks:
• It analyses legal and regulatory developments in order to anticipate and assess possible consequences on Dexia's activities. It ensures, for the fields covered by the compliance function, the correct interpretation of national and international legislation and regulations, and ensures that these provisions are included in the policies, procedures and other documents of the institution;
• It identifies, analyses and measures non-compliance and reputation risks which might arise from activities and financial products and the impacts in terms of evolution of the Group's scope;
• It provides assistance to business lines in the development and implementation of compliance procedures and other documents. For example, it helps with the drafting of compliance manuals, internal codes of conduct and practical guides. It assists and advises in order to ensure the correct interpretation and implementation as well as the observance of these procedures and other documents;
• It develops and provides compliance training programmes, adapted to the needs of business lines, promoting an appropriate compliance culture and awareness and understanding of standards, procedures and lines of conduct to be applied;
• To the extent that it is required by local regulations, it communicates with the financial regulators or any other competent authority about any suspect incident or transaction;
• It regularly presents its activities and reports on the status of any major shortcomings to the Management Boards and Internal Audit Coordination Committees.

### Organisation and positioning

The Group's Chief Compliance Officer reports to the Secretary General. Escalation rights ensure that the Group Chief Compliance Officer is able to report any significant incidents directly to the Chairman of the Board of Directors of Dexia or to the Audit Committee members.
Compliance has adapted, in its organisation and its mode of intervention, to the Group's new scope, in terms of geographic presence and activity. The work force has been adapted accordingly. In particular, the compliance functions of Dexia and Dexia Crédit Local have been merged.
One of the major developments in 2014 was Permanent Control reporting to the Compliance department.

### Oversight

The disposal of the Group's main operating entities as part of its orderly resolution plan, has led to a redefinition of the support line's governance approach, replacing the previous Compliance Committee with a certain number of regular meetings dedicated to each entity present within the Group.
With regard to oversight of compliance throughout the Group, the principles of organisation have been maintained with regular periodic reporting to the parent company, a procedure for reporting incidents if necessary and a transposition of the guidelines, policies and procedures which must be followed in each Group entity.
The mapping of compliance risks was undated at the beginning of 2014. It measures the net risk (measured by the probability of the occurrence of a risk and its potential impact taking account the existing internal audit environment) for each of the risks relating to the fields of compliance. This latter mapping exercise shows the level of residual compli-

ance risk is low overall and falling with reductions of scope and activity. The results of mapping and the associated action plans are the object of presentations to the governance bodies of the various entities.
This mapping ensures the application of policies, guidelines and procedures, if necessary to trace malfunctions and implement corrective measures to enable better oversight for the support line.
Several actions have been taken on the one hand to ensure the implementation of measures intended to protect information within the context of the various projects for disposals or the restructuring of the Group and on the other hand to strengthen the protection of personal data (particularly for the treatment of data violations) and the protection of clients.
The rules concerning the prevention of insider trading in Dexia financial instruments define the statuses attributed to staff members according to the access to inside/sensitive information which they have or are liable to have through the performance of their tasks, and set the restrictions/obligations associated with each status. These obligations were recalled on several occasions during the Group restructuring operations.
Training sessions were organised in all the entities in the compliance fields, including training on the code of professional ethics, in order to recall the key compliance principles, as well as on prevention, with the fight against money laundering and the financing of terrorism.
Compliance has also supported work by the operating departments in connection with moves to ensure compliance with the FATCA regulations on the one hand, and on the other, the EMIR regulations and Title VII of the Dodd Frank Act.
Concrete actions were gradually put in place to improve supervision of the network of subsidiaries and branches.

## Internal control within the context of producing financial information

The Finance support line has the following five departments, reporting to the Chief Financial Officer: Finance Strategy, Product Control, IT Support, Financial Control and Financial Communication and Business Management.
Dexia's basis for consolidation includes the following direct subsidiaries, also known as the operating entities: Dexia Crédit Local and Dexia Asset Management (until 3 February 2014). It also includes the subsidiary Dexia Nederland BV, resulting from the merger of Dexia Nederland Holding BV and Dexia Bank Nederland.

### Production of the financial statements

The Financial Control department produces the Dexia Group's consolidated financial statements, the periodic prudential reports and the statutory financial statements of Dexia.
It also monitors and audits the accounting data of the permanent establishments of Dexia in France and Luxembourg and, within the context of the consolidation process, of its direct subsidiaries. In particular, it checks that the information provided is consistent and complies with Group rules.

#### Dexia consolidated financial statements

Dexia mainly has an interest in Dexia Crédit Local. This company prepares consolidated financial statements and these are in turn consolidated with the financial statements of the holding company, Dexia, and of directly associated subsidiaries.
The main adjustments booked by the Dexia Group Consolidation division relate to the elimination of reciprocal accounts and intra-Group transactions (asset acquisitions/disposals, dividends, etc.). They also relate to the restatement of companies held by different Group entities.
When the consolidated financial statements have been finalised, they are submitted for review to the Chief Financial Officer who has them approved by the Management Board. They are then presented to the Audit Committee and signed off by the Board of Directors of Dexia.

#### Notes and appendices to the consolidated financial statements

Some of the notes and appendices to the consolidated financial statements are not drawn up directly by the Financial Control department, but come from the following departments, such as Financial Strategy, the Risk Department, the General Secretary or Human Resources.
The planning of the provision of this information and the final responsibility for the content of the consolidated financial statements are assumed by the Finance support line.

#### Dexia statutory financial statements

Dexia accounting is kept in Brussels and also in two permanent establishments in Paris and Luxembourg. These two establishments keep separate accounting. On a monthly basis, all transactions recorded in the financial statements of the branches are integrated at the registered office in Brussels.
Additional checks are made by teams in the Accounting department when drawing up the quarterly or annual financial statements. Balances and the principal changes must be justified.

#### Periodic prudential reporting

Standardised Common Reporting or COREP and the calculation of solvency margins have been sent to the European Central Bank via the national supervisory authorities four times a year since 4 November 2014.
On the other hand, since 2011 Dexia has been subject quarterly to the Financial Reporting or FINREP of financial companies. The FINREP was subject to in-depth modification in 2014 and contains new appendices.

### Relations with the statutory auditors

The statutory auditors make regular checks on the financial reporting of the various entities and subsidiaries of the Dexia Group.
They are involved with the entire process of checking the financial and accounting information with a concern for efficiency and transparency. As part of their duties, they analyse the accounting procedures and assess the internal control systems necessary for reliably establishing the financial statements. They issue instructions to the statutory auditors of the entities and ensure their work is centralised. They organise summary meetings on the results of their audits and assess the interpretation of standards. Lastly, they check the consistency of accounting information between the management report and the financial statements. The performance of these duties enables them to obtain reasonable assurance that, considering the legal and regulatory provisions governing them, the annual financial statements give a true picture of the assets, financial position and results of the company and that the information given in the notes is appropriate. They issue an opinion on the Group's statutory and consolidated financial statements.

## External Control

### Statutory Auditor

In accordance with Article 14 of the articles of association of Dexia, the auditing of the company's financial position and annual financial statements is entrusted to one or more auditors who are appointed by the sshareholders' meeting for a maximum of three years on the recommendation of the Board of Directors and after validation by the works council.
The statutory auditing of Dexia's financial statements has been entrusted to Deloitte Reviseurs d'Entreprises SC s.f.d. SCRL, the mandate of which was renewed by the ordinary shareholders' meeting in May 2014 for a term of three years closing at the end of the ordinary shareholders' meeting in May 2017. The company is represented by Mr Yves Dehogne, chartered auditor.

### Compensation of the statutory auditor

This table gives a summary of the compensation paid to the statutory auditor for its services in 2014 for Dexia and the whole Group.

| **DELOITTE** (in EUR) | **Services provided for Dexia** | **Services provide for the Dexia Group (consolidated amounts)** |
|---|---|---|
| a) Audit of the financial statements | 670,000 | 2,995,831 |
| b) Other tasks (non certification) | 1,057,024 | 2,703,958 |
| **TOTAL** | **1,727,024** | **5,699,789** |

### Protocol for the Dexia Group's prudential structure

In application of Regulation EU 1024/2013 of the Council dated 15 October 2013 entrusting the European Central Bank (ECB) with specific tasks concerning policies for the prudential supervision of credit institutions, the European Central Bank decided that the Dexia Group was an important group within the meaning of article 6 §4 of the Regulation, and that all of its subsidiaries subject to prudential supervision on a consolidated basis in accordance with Regulation 575/2013 were important entities subject to prudential supervision by the ECB.
With the assistance of national supervisory authorities, the ECB supervises institutions classified as important[1]. Daily supervision is by joint supervisory teams (JST), which include the staff of the various national supervisory authorities and the ECB.

# General information

## Overview of Dexia's direct holdings as at 31 December 2014

The main direct holdings of Dexia as at 31 December 2014 are as follows:
- Dexia Crédit Local (France): 100%;
- Dexia Nederland BV (Netherlands): 100%;
- Dexiarail SA (France): 100%.

Dexia has two permanent establishments, one in France and one in Luxembourg.

## Agenda for the shareholders' meetings

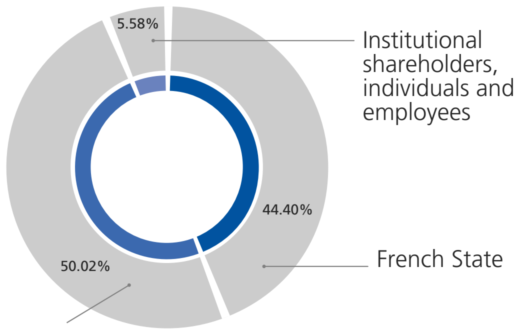
The agendas for the ordinary shareholders' meeting and the extraordinary shareholders' meeting to be held on Wednesday 20 May 2015 in Brussels are available on Dexia's website: *www.dexia.com*.

## Notifications under the legislation on transparency

Under the terms of the Law of 2 May 2007 (the "Law"), relating to the disclosure of major holdings in issuers whose shares are admitted for trading on a regulated market, and the Royal Decree dealing with its execution dated 14 February 2008, which came into force on 1 September 2008, and on the basis of Article 5 of the articles of association of Dexia, shareholders are required to notify their holdings to the Financial Services and Markets Authority (FSMA) and to Dexia, whenever these reach a threshold of 1%, 3%, then 5% or a multiple of 5%.
To calculate percentages of holdings, the numerator consists of the number of voting rights attached to shares conferring voting rights or not associated with shares, reduced or increased by the number of voting rights which may be acquired on the exercising of similar financial instruments held by the person making the declaration. The denominator consists of the total number of existing voting rights in Dexia as published on the website.
Dexia received no notification in 2014.

*(1) Approximately 120 groups representings approximately 1,200 supervised entities are concerned.*

To Dexia's knowledge, the breakdown of the shareholder structure as at 31 December 2014 is as follows:




## Legislation on tender offers

### Publication in accordance with Article 34 of the Royal Decree of 14 November 2007 relating to the obligations of issuers of financial instruments admitted for trading on a regulated market

**Capital structure as at 31 December 2014**

The shareholder structure is detailed on page 42, and the information relating to the share capital is provided on page 34 of the Annual Report.

**Legal or statutory restriction on the transfer of shares**

Not applicable.

**Holders of any securities bearing special control rights**

No special rights are attached to securities representing the company's share capital.

**Control mechanisms provided in an employee share ownership plan when control rights are not exercised directly**

Not applicable.

**Legal or statutory restriction on the exercising of voting rights**

The voting rights on own shares held by Dexia or its subsidiaries are not exercised during the shareholders' meetings of Dexia.

**Agreements between shareholders known by the issuer and which may involve restrictions for the transfer of securities and/or the exercising of voting rights**

Not applicable.

**Rules applicable for the appointment and replacement of members of the Board of Directors as well as the amendment of the articles of association of the issuer**

The rules relating to the appointment and replacement of members of the Board of Directors are detailed on page 47 of the Declaration of Corporate Governance, as well as in the Corporate Governance Charter published on the company's website.

The company's articles of association may be amended in accordance with the provisions of the Companies Code.

**Powers of the administrative body, particularly concerning the power to issue or repurchase shares**

The Board of Directors was authorised by the shareholders' meeting, in accordance with statutory provisions and Articles 607 and 620 of the Companies Code, to issue and repurchase shares on the basis of authorisations granted by the shareholders' meeting.

- The authorisation to increase the capital granted by the shareholders' meeting on 14 May 2014 is valid for a five-year period ending in 2014. The authorisation to acquire and dispose of own shares was granted by the shareholders' meeting on 8 May 2013 is valid for a five-year period ending in 2018.

**Major agreements to which Dexia is a party and which take effect, are amended or terminate in the event of a change of control of Dexia as the result of a public tender offer**

Dexia is not party to any major agreement liable to enter into force, be amended or terminated as a result of a change of control over the company within the context of a public tender offer.

**Agreements between Dexia and members of its Board of Directors or its staff which provide compensation if members of the Board resign or must leave their positions without valid reason or if the employment of members of staff ends by virtue of a public tender offer**

Not applicable.

# Consolidated Financial Statements as at 31 December 2014

# Consolidated balance sheet

| **ASSETS** (in EUR million) | | Note | 31/12/2013 | 31/12/2014 |
|---|---|---|---|---|
| I. | Cash and central banks | 2.0 | 1,745 | 3,104 |
| II. | Financial assets at fair value through profit or loss | 2.1 & 4.1 | 18,348 | 24,215 |
| III. | Hedging derivatives | 4.1 | 5,945 | 8,374 |
| IV. | Financial assets available for sale | 2.2 | 29,224 | 26,641 |
| V. | Interbank loans and advances | 2.3 | 8,807 | 8,563 |
| VI. | Customer loans and advances | 2.4 | 129,039 | 135,311 |
| VII. | Fair value revaluation of portfolio hedges | | 1,035 | 1,910 |
| VIII. | Financial assets held to maturity | 2.5 | 437 | 306 |
| IX. | Current tax assets | 2.6 | 193 | 32 |
| X. | Deferred tax assets | 2.6 | 42 | 41 |
| XI. | Accruals and other assets | 2.7 | 27,270 | 38,256 |
| XII. | Non current assets held for sale | 4.6 | 484 | 13 |
| XV. | Tangible fixed assets | 2.8 | 339 | 331 |
| XVI. | Intangible assets | 2.9 | 28 | 23 |
| XVII. | Goodwill | 2.10 | 0 | 0 |
| **TOTAL ASSETS** | | | **222,936** | **247,120** |

The notes on pages 78 to 167 are an integral part of these consolidated financial statements.

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| **LIABILITIES** (in EUR million) | | Note | 31/12/2013 | 31/12/2014 |
|---|---|---|---|---|
| I. | Central banks | 3.0 | 34,274 | 33,845 |
| II. | Financial liabilities at fair value through profit or loss | 3.1 & 4.1 | 18,840 | 25,731 |
| III. | Hedging derivatives | 4.1 | 22,265 | 33,832 |
| IV. | Interbank borrowings and deposits | 3.2 | 31,201 | 44,604 |
| V. | Customer borrowings and deposits | 3.3 | 8,590 | 7,958 |
| VI. | Debt securities | 3.4 | 96,368 | 89,518 |
| VII. | Fair value revaluation of portfolio hedges | | 231 | 227 |
| VIII. | Current tax liabilities | 3.5 | 6 | 2 |
| IX. | Deferred tax liabilities | 3.5 | 135 | 152 |
| X. | Accruals and other liabilities | 3.6 | 5,987 | 7,272 |
| XI. | Liabilities included in disposal groups held for sale | 4.6 | 123 | 0 |
| XIII. | Provisions | 3.7 | 313 | 353 |
| XIV. | Subordinated debt | 3.8 | 644 | 498 |
| | **Total liabilities** | | **218,977** | **243,992** |
| **XV.** | **Equity** | 3.9 | **3,959** | **3,128** |
| XVI. | Equity, Group share | | 3,488 | 2,711 |
| XVII. | Capital stock and related reserves (1) | | 2,486 | 2,486 |
| XVIII. | Consolidated reserves (1) | | 8,556 | 7,470 |
| XIX. | Gains and losses directly recognised in equity | | (6,471) | (6,639) |
| XX. | Net result of the period | | (1,083) | (606) |
| XXI. | Minority interests | | 471 | 417 |
| **TOTAL LIABILITIES AND EQUITY** | | | **222,936** | **247,120** |

*(1) Figures as at 31 December 2013 have been restated to disclose the legal reserve in "Capital stock and related reserves" and no longer in "Consolidated reserves".*

The notes on pages 78 to 167 are an integral part of these consolidated financial statements.

# Consolidated statement of income

| (in EUR million) | | Note | 31/12/2013 | 31/12/2014 |
|---|---|---|---|---|
| I. | Interest income | 5.1 | 14,157 | 11,463 |
| II. | Interest expense | 5.1 | (14,248) | (11,283) |
| III. | Commission income | 5.2 | 57 | 21 |
| IV. | Commission expense | 5.2 | (44) | (31) |
| V. | Net gains (losses) on financial instruments at fair value through profit or loss | 5.3 | (340) | (343) |
| VI. | Net gains (losses) on financial assets available for sale | 5.4 | 47 | 43 |
| VII. | Other income | 5.5 | 38 | 41 |
| VIII. | Other expenses | 5.6 | (141) | (158) |
| **IX.** | **NET BANKING INCOME** | | **(474)** | **(247)** |
| X. | Operating expenses | 5.7 | (368) | (355) |
| XI. | Depreciation, amortisation and impairment of tangible fixed assets and intangible assets | 5.8 | (33) | (27) |
| **XII.** | **GROSS OPERATING INCOME** | | **(875)** | **(629)** |
| XIII. | Cost of risk | 5.9 | (185) | (62) |
| **XIV.** | **OPERATING INCOME** | | **(1,060)** | **(691)** |
| XVI. | Net gains ( losses) on other assets | 5.10 | 59 | (1) |
| **XVIII.** | **NET RESULT BEFORE TAX** | | **(1,001)** | **(692)** |
| XIX. | Income tax | 5.11 | 39 | (8) |
| XX. | Result from discontinued operations, net of tax | 4.6 | (119) | 87 |
| **XXI.** | **NET INCOME** | | **(1,081)** | **(613)** |
| XXII. | Minority interests | | 2 | (7) |
| **XXIII.** | **NET INCOME, GROUP SHARE** | | **(1,083)** | **(606)** |
| | | | | |
| | **Earnings per share, Group share (in EUR)** | 5.12 | | |
| | Basic | | (0.56) | (0.31) |
| | *- from continuing operations* | | *(0.49)* | *(0.35)* |
| | *- from discontinued operations* | | *(0.06)* | *0.04* |
| | Diluted | | (0.56) | (0.31) |
| | *- from continuing operations* | | *(0.49)* | *(0.35)* |
| | *- from discontinued operations* | | *(0.06)* | *0.04* |

The notes on pages 78 to 167 are an integral part of these condensed financial statements.

# Consolidated statement of comprehensive income

| (in EUR million) | 31/12/2013 | | | 31/12/2014 | | |
|---|---|---|---|---|---|---|
| | Before-tax amount | Tax (expense) benefit | Net-of-tax amount | Before-tax amount | Tax (expense) benefit | Net-of-tax amount |
| **NET INCOME** | | | **(1,081)** | | | **(613)** |
| **Elements reclassified or likely to be subsequently reclassified in net income** | | | | | | |
| Cumulative translation adjustments | (22) | | (22) | 86 | | 86 |
| Revaluation of financial assets available for sale or reclassified in loans and advances | 1,559 | (17) | 1,542 | 235 | (14) | 221 |
| Revaluation of hedging derivatives | (58) | 5 | (53) | (508) | | (508) |
| Other comprehensive income from disposal groups held for sale | 219 | (70) | 149 | 3 | (1) | 2 |
| **Elements that will never be reclassified or likely to be subsequently reclassified in net income** | | | | | | |
| Actuarial gains and losses on defined benefit plans | (2) | 2 | 0 | (6) | (2) | (8) |
| Actuarial gains and losses on defined benefit plans of disposal groups held for sale | (4) | 1 | (3) | | | |
| **TOTAL UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY** | **1,692** | **(79)** | **1,613** | **(190)** | **(17)** | **(207)** |
| **NET RESULT AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY** | | | **532** | | | **(820)** |
| of which, Group share | | | 513 | | | (774) |
| of which, Minority interests | | | 19 | | | (46) |
| **NET RESULT AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY FROM CONTINUING ACTIVITIES** | **475** | **29** | **504** | **(885)** | **(24)** | **(909)** |
| of which, Group share | | | 492 | | | (862) |
| of which, Minority interests | | | 12 | | | (47) |

The notes on pages 78 to 167 are an integral part of these consolidated financial statements.

# Consolidated statement of changes in equity

| | Capital stock and related reserves | | | | Consolidated reserves | Gains and losses directly | |
|---|---|---|---|---|---|---|---|
| (in EUR million) | Capital stock | Related reserves | Treasury shares | Total | | Change in fair value of financial assets available for sale or reclassified as loans and advances, net of taxes | Change in fair value of cash flow hedges, net of taxes |
| **AS AT 31 DECEMBER 2012** | **6,000** | **1,990** | **(4)** | **7,986** | **5,799** | **(7,005)** | **(885)** |
| *Movements during the period* | | | | | | | |
| Changes in capital [(1)] | (5,500) | | | (5,500) | 5,500 | | |
| Dividends | | | | | | | |
| Appropriation of net income 2012 | | | | | (2,866) | | |
| **Subtotal of shareholders' related movements** | **(5,500)** | | | **(5,500)** | **2,634** | | |
| Translation adjustments | | | | | | 10 | 12 |
| Changes in fair value of financial assets available for sale, through equity | | | | | | 1,293 | |
| Changes in fair value of derivatives through equity | | | | | | | (62) |
| Changes in fair value of financial assets available for sale or reclassified in loans and avances, through profit or loss | | | | | | 218 | |
| Changes in actuarial gains and losses on defined benefit plans | | | | | | | |
| **Subtotal of changes in gains and losses directly recognized in equity** | | | | | | **1,521** | **(50)** |
| Net income for the period | | | | | | | |
| Other variations [(2)] | | | | | 123 | 2 | |
| **AS AT 31 DECEMBER 2013** | **500** | **1,990** | **(4)** | **2,486** | **8,556** | **(5,482)** | **(935)** |
| *Movements during the period* | | | | | | | |
| Appropriation of net income 2013 | | | | | (1,083) | | |
| **Subtotal of shareholders' related movements** | | | | | **(1,083)** | | |
| Translation adjustments | | | | | | (162) | (44) |
| Changes in fair value of financial assets available for sale, through equity | | | | | | 226 | |
| Changes in fair value of derivatives through equity | | | | | | | (471) |
| Changes in fair value of financial assets available for sale or reclassified in loans and advances, through profit or loss | | | | | | 202 | |
| Changes in actuarial gains and losses on defined benefit plans | | | | | | | |
| **Subtotal of changes in gains and losses directly recognized in equity** | | | | | | **266** | **(515)** |
| Net income for the period | | | | | | | |
| Other variations [(2)] | | | | | (3) | | |
| **AS AT 31 DECEMBER 2014** | **500** | **1,990** | **(4)** | **2,486** | **7,470** | **(5,216)** | **(1,450)** |

*(1) The extraordinary shareholders' meeting of 8 May 2013 decided to reduce the share capital by an amount of EUR 5.5 billion in order to reduce it to EUR 500 million by discharging the statutory deferred loss resulting from the result allocation decided by the ordinary shareholders' meeting of 8 May 2013.*
*(2) The other variations are explained in the note 3.9.c.*

The notes on pages 78 to 167 are an integral part of these consolidated financial statements.

| recognised in equity | | | | Net income, Group share | EQUITY, GROUP SHARE | Minority interests | | | EQUITY |
|---|---|---|---|---|---|---|---|---|---|
| Change in unrealised or deferred gains and losses related to non current assets held for sale | Actuarial gains and losses on defined benefit plans | Translation adjustments | Total | | | Capital and reserves | Gains and losses directly recognised in equity | Total | |
| **(148)** | **0** | **(29)** | **(8,067)** | **(2,866)** | **2,852** | **473** | **(15)** | **458** | **3,310** |
| | | | | | | | | | |
| | | | | | 0 | | | | 0 |
| | | | | | | (5) | | (5) | (5) |
| | | | | 2,866 | 0 | | | | |
| | | | | **2,866** | **0** | **(5)** | | **(5)** | **(5)** |
| | | (24) | (2) | | (2) | | 1 | 1 | (1) |
| 6 | | | 1,299 | | 1,299 | | 18 | 18 | 1,317 |
| | | | (62) | | (62) | | (3) | (3) | (65) |
| (1) | | | 217 | | 217 | | 1 | 1 | 218 |
| 3 | (1) | | 2 | | 2 | | 1 | 1 | 3 |
| **8** | **(1)** | **(24)** | **1,454** | | **1,454** | | **18** | **18** | **1,472** |
| | | | | (1,083) | (1,083) | 2 | | 2 | (1,081) |
| 139 | 1 | | 142 | | 265 | | (2) | (2) | 263 |
| **(1)** | **0** | **(53)** | **(6,471)** | **(1,083)** | **3,488** | **470** | **1** | **471** | **3,959** |
| | | | | | | | | | |
| | | | | 1,083 | 0 | | | | |
| | | | | **1,083** | **0** | | | | |
| | | 85 | (121) | | (121) | | 1 | 1 | (120) |
| | | | 226 | | 226 | | (44) | (44) | 182 |
| | | | (471) | | (471) | | 6 | 6 | (465) |
| | | | 202 | | 202 | | | | 202 |
| | (5) | | (5) | | (5) | | (2) | (2) | (7) |
| | **(5)** | **85** | **(169)** | | **(169)** | | **(39)** | **(39)** | **(208)** |
| | | | | (606) | (606) | (7) | | (7) | (613) |
| 1 | | | 1 | | (2) | (8) | | (8) | (10) |
| **0** | **(5)** | **32** | **(6,639)** | **(606)** | **2,711** | **455** | **(38)** | **417** | **3,128** |

# Consolidated cash flow statement

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Net income after income taxes | (1,081) | (613) |
| Adjustment for: | | |
| - Depreciation , amortization and other impairment | 56 | 27 |
| - Impairment on bonds , equities, loans and other assets | 72 | (262) |
| - Net (gains) or losses on investments | (65) | (94) |
| - Charges for provisions | 37 | 101 |
| - Unrealised (gains) or losses | 250 | 292 |
| - Income from associates | (3) | 0 |
| - Deferred taxes | (107) | 3 |
| Changes in operating assets and liabilities | (464) | 2,307 |
| **NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | **(1,305)** | **1,761** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Purchase of fixed assets | (65) | (14) |
| Sale of fixed assets | 27 | 0 |
| Acquisitions of unconsolidated equity shares | (13) | (1) |
| Sales of unconsolidated equity shares | 74 | 69 |
| Sales of subsidiaries and of business units | (2,525) | 341 |
| **NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES** | **(2,502)** | **395** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Reimbursement of subordinated debts | (51) | (134) |
| Dividends paid | (5) | 0 |
| **NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES** | **(56)** | **(134)** |
| **NET CASH PROVIDED** | **(3,863)** | **2,022** |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD** | **6,765** | **2,848** |
| Cash flow from operating activities | (1,305) | 1,761 |
| Cash flow from investing activities | (2,502) | 395 |
| Cash flow from financing activities | (56) | (134) |
| Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents | (54) | 263 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | **2,848** | **5,133** |
| **ADDITIONAL INFORMATION** | | |
| Income tax paid | (55) | 133 (1) |
| Dividends received | 2 | 2 |
| Interest received | 14,776 | 11,758 |
| Interest paid | (14,774) | (11,798) |

*(1) Tax receivable cashed in 2014.*

The notes on pages 78 to 167 are an integral part of these consolidated financial statements.

# Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents include the following balances with initial maturities of less than 90 days:

### a. Analysis by nature

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Cash and central banks (note 2.0.) | 1,745 | 3,104 |
| Interbank loans and advances (note 2.3.) | 1,056 | 2,029 |
| Non current assets held for sale | 47 | 0 |
| **TOTAL** | **2,848** | **5 133** |

### b. Of which, restricted cash

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Mandatory reserves (1) | 164 | 629 |
| *of continuing operations* | *164* | *629* |
| **TOTAL** | **164** | **629** |

*(1) Minimum required reserve deposits at the European Central Bank (ECB) or at other central banks.*

The notes on pages 78 to 167 are an integral part of these consolidated financial statements.

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# Notes to the consolidated financial statements

## 1. Accounting policies and valuation methods, ownership interest in subsidiaries and other entities, significant events in 2014 and post-balance-sheet events



### 1.1. Accounting policies and valuation methods

**GENERAL INFORMATION**

The Group's parent company is Dexia, a limited company under Belgian law with its shares listed on NYSE Euronext Brussels as well as the Luxembourg Stock Exchanges. Its registered office is located at Place du Champ de Mars 5 – B-1050 Brussels (Belgium).

These consolidated financial statements were authorised for issue by the Board of Directors on 12 March 2015.

**NOTES TO THE FINANCIAL STATEMENTS**

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

The common used abbreviations below are:
- IASB: International Accounting Standards Board
- IFRS IC: IFRS Interpretations Committee (ex IFRIC)
- IFRS: International Financial Reporting Standards

#### 1.1.1. BASIS OF ACCOUNTING

**1.1.1.1. General**

Dexia's consolidated financial statements are prepared in accordance with the IFRS adopted by the EU.

The European Commission published Regulation EC 1606/2002 on 19 July 2002, requiring listed groups to apply IFRS as from 1 January 2005. This regulation has been updated several times since 2002.

Dexia's financial statements have therefore been prepared "in accordance with all IFRSs as adopted by the EU" and endorsed by the EC up to 31 December 2014, including the conditions of application of interest rate portfolio hedging and the possibility to hedge core deposits.

Our accounting principles include mainly elements where an IFRS text allows the possibility of choice.

The consolidated financial statements of Dexia as at 31 December 2014 were prepared in accordance with the accounting rules applicable to a going concern. The assumptions detailed below were the basis of the business plan underlying the Dexia Group resolution plan and were already explained in previous accounting closures.

- 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 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 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 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 may not allow 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[1] 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.

The consolidated financial statements are given in millions of euro (EUR) unless otherwise stated.

#### 1.1.1.2. Accounting estimates and judgements

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported. To make these assumptions and estimates, management uses the information available at the date of preparation of the financial statements and exercises its judgement. While management believes that it has considered all available information in developing these estimates, actual results may differ from the estimates and the differences could be material to the financial statements.

Judgements are made principally in the following areas:

• classification of financial instruments into the appropriate category "loans and receivables", "held to maturity", "available for sale", "held for trading" and "fair value option" for measurement purposes based on instrument's characteristic and Dexia's intention (see 1.1.6.);

• financial instruments not quoted in an active market are valued by means of valuation techniques. The determination whether or not there is an active market is based on criteria such as volume traded, market liquidity, bid offer spread etc (see 1.1.7.);

• determination of fair value for financial instruments measured at fair value by means of valuation techniques (see 1.1.7.);

• determination on whether Dexia controls the investee, including special-purpose entities (see 1.1.3.);

• identification of non-current assets and disposal groups held for sale and discontinued operations (IFRS 5) (see 1.1.15.);

• hedge accounting (see 1.1.10., 1.1.11.);

• existence of a present obligation with probable outflows in the context of litigations (see 1.1.22.);

• identification of impairment triggers (see 1.1.6.5.).

These judgements are entered in the corresponding sections (as referenced above) of the accounting policies.

Estimates are principally made in the following areas:

• determination of the recoverable amount of impaired financial assets and fair value less costs to sell for non-current assets and disposal groups held for sale (see 1.1.6.5., 1.1.15.);

• the measurement of hedge effectiveness in hedging relations (see 1.1.10., 1.1.11.);

• determination of the market value correction to adjust for market value and model uncertainty (see 1.1.7.);

• determination of the useful life and the residual value of property, plant and equipment, and intangible assets (see 1.1.13., 1.1.14.);

• actuarial assumptions related to the measurement of employee benefits obligations and plan assets (see 1.1.21., 3.7.);

• estimate of future taxable profit for the recognition and measurement of deferred tax assets (see 1.1.20.).

As mentioned in the highlights related to the single supervision mechanism, in 2014, Dexia revised the methodology of valuation of securities and CVA/DVA (see 1.1.7. Fair value of financial instruments).

### 1.1.2. CHANGES IN ACCOUNTING POLICIES SINCE THE PREVIOUS ANNUAL PUBLICATION THAT MAY IMPACT DEXIA GROUP

#### 1.1.2.1. IASB and IFRIC texts endorsed by the European Commission and applied as from 1 January 2014

• A "package of five" new and revised standards on the accounting treatment and disclosure requirements for interests in other entities. These new and revised standards comprise the following:

- IFRS 10 "Consolidated Financial Statements" introduces a single consolidation model for all entities, based on control and regardless the nature of the investee. IFRS 10 replaces IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 " Consolidation – Special Purpose Entities" (called "structured entities" under the new standard). IFRS 10 amends the definition of control and now states that an

*(1) Deposits or financial instruments posted by Dexia to its counterparties in order to secure obligations under interest rate or currency swaps.*

investor controls an investee if and only if the investor has all the following:

(a) power over the investee,

(b) exposure, or rights, to variable returns from its involvement with the investee, and

(c) the ability to use its power over the investee to affect the amount of the investor's returns.

This standard does not have a material impact on Dexia's financial statements.

- IFRS 11 "Joint Arrangements" does not permit any longer the proportional consolidation method when accounting for jointly-controlled entities. This standard does not impact the financial statements of Dexia.

- IFRS 12 "Disclosure of Interests in Other Entities" requires enhanced disclosures on Dexia's interests in subsidiaries, joint arrangements, associates and consolidated and non-consolidated structured entities in which Dexia has an involvement. This standard has an impact on the notes to Dexia's annual financial statements (see note 1.2.).

- IAS 27 "Separate Financial Statements", which supersedes IAS 27 "Consolidated and Separate Financial Statements" (as amended in 2008), continues to be a standard dealing solely with separate financial statements and thus has no impact on the consolidated financial statements of Dexia.

- IAS 28 "Investments in Associates and Joint Ventures", which supersedes IAS 28 "Investments in Associates" (as revised in 2003), is amended to reflect the changes stemming from the issuance of IFRS 10, IFRS 11 and IFRS 12. This standard does not impact the financial statements of Dexia.

• Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance". These amendments do not have a material impact on Dexia's financial statements.

• Investment entities – Amendments to IFRS 10, IFRS 12 and IAS 27. These amendments do not impact the financial statements of Dexia.

• Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets". This amendment has no impact on Dexia.

• Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting". This amendment does not have a material impact on Dexia's financial statements.

• Amendment to IAS 32 "Financial instruments: Presentation". This amendment provides clarifications on the rules for offsetting financial assets and financial liabilities and does not have a material impact on Dexia's financial statements.

**1.1.2.2. IASB and IFRIC texts endorsed by the European Commission during the current year but not yet applicable as from 1 January 2014**

• IFRIC 21 "Levies". This interpretation is effective, at the latest, as from the commencement date of its first financial year starting on or after 17 June 2014. Dexia does not expect this interpretation to have a material impact on its annual financial statements.

• "Annual Improvements 2011-2013 cycle", which are a collection of amendments to existing IFRS. These amendments become effective, at the latest, as from the commencement date of the first financial year starting on or after 1 January 2015. Dexia does not expect these amendments to have a material impact on its financial statements as those amendments are related to minor adjustments of some IFRS standards.

**1.1.2.3. New IFRS standards, IFRIC interpretations and amendments issued during the current year but not yet endorsed by the European Commission**

• IFRS 14 "Regulatory Deferral Accounts" (issued by IASB in January 2014). This standard is effective as from 1 January 2016 and will not impact the financial statements of Dexia, which is no longer a first-time adopter.

• IFRS 15 "Revenue from Contracts with Customers" (issued by IASB in May 2014). This standard establishes the principles for accounting for revenue arising from contracts with customers. It is effective as from 1 January 2017 and the impact on Dexia's financial statements is currently being assessed.

• Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" (issued by IASB in May 2014). This amendment is effective as from 1 January 2016 and will not impact the financial statements of Dexia.

• Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation" (issued by IASB in May 2014). These amendments are effective as from 1 January 2016 and will have no impact on the financial statements of Dexia.

• Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants" (issued by IASB in June 2014). These amendments are effective as from 1 January 2016 and will have no impact on the financial statements of Dexia.

• IFRS 9 "Financial Instruments" (issued by IASB in July 2014). This standard brings together three following phases to replace "IAS 39 Financial Instruments: Recognition and Measurement" : classification and measurement, impairment and hedge accounting. Macro hedge accounting is addressed as a separate project by the IASB. Improvements introduced by IFRS 9 include:

- a logical and single approach for the classification and measurement of financial assets, which is driven by the business model in which an asset is held and its contractual cash flow characteristics; recognition in other comprehensive income of changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss;
- a single, forward-looking ''expected loss" impairment model;
- a substantially-reformed approach to hedge accounting.

Disclosed information is also enhanced.

This standard is effective as from 1 January 2018 and the impact on Dexia's financial statements is currently being assessed.

• Amendment to IAS 27 "Equity Method in Separate Financial Statements" (issued by IASB in August 2014). This amendment is effective as from 1 January 2016 and will not impact the financial statements of Dexia.

• Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (issued by IASB in September 2014). These amendments are effective as from 1 January 2016 and will have no impact on the financial statements of Dexia.

• "Annual Improvements 2012-2014 cycle" (issued by IASB in September 2014), which are a collection of amendments to existing IFRS. These amendments are effective as from 1 January 2016. Dexia does not expect these amendments to have a material impact on its financial statements as those amendments are related to minor adjustments of some IFRS standards.

• Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" (issued by IASB in December 2014). These amendments are effective as from 1 January 2016 and Dexia does not expect these amendments to have a material impact on its financial statements.

• Amendment to IAS 1 "Disclosure Initiative" (issued by IASB in December 2014). This amendment is effective as from 1 January 2016 and the impact on the notes to Dexia's financial statements is currently being assessed.

#### 1.1.2.4. Changes in presentation of consolidated financial statements of Dexia

There has been no change in presentation of consolidated financial statements of Dexia during the current year.

As a reminder, since 1 January 2013, the consolidated financial statements of Dexia have been prepared in accordance with the ANC (Autorité des Normes Comptables, Authority for Accounting Standards) presentation. Since 31 December 2013, they have been compliant with ANC Recommendation 2013-04 issued on 7 November 2013 "on the presentation of the consolidated financial statements of banks prepared in accordance with International Financial Reporting Standards" which cancels and replaces the Recommendation 2009-R.04 issued on 2 July 2009.

### 1.1.3. CONSOLIDATION

#### 1.1.3.1. Subsidiaries and structured entities

Subsidiaries are those entities over whose Dexia may exercise control. Entities controlled by the Group are fully consolidated. Under IFRS 10 "Consolidated Financial Statements", the Group controls an entity if and only if the Group has all the following :

• power over the entity ;

• exposure, or rights, to variable returns from its involvement with the entity ;

• the ability to use its power over the entity to affect those returns.

When power over an entity is obtained directly and solely from the voting rights granted by equity instruments, the investor that holds a majority of those voting rights controls the entity.

In other cases, especially for structured entities, the assessment of control is more complex and may require greater use of judgment considering other factors. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, Dexia is particularly involved in securitisation vehicles and investment funds. Dexia has power over an investee when it has existing rights that give it the current ability to direct the relevant activities, ie the activities that significantly affect the investee's returns.

The ability to direct the relevant activities is assessed by considering : the purpose and design of the investee ; managing financial assets during their life, including the management upon default; selecting, acquiring, disposing or replacing of assets ; appointing and remunerating an investee's key management personnel and terminating their employment ; the right to liquidate the entity. Dexia determines whether it is exposed, or has rights, to variable returns by considering : dividends and other distributions of economic benefits ; exposure to loss through instruments that absorbs variability (including CDSs as sellers of protection or junior tranches designed to absorb the first losses and paid on credit risk exposure basis); remuneration for servicing an investee's assets or liabilities; returns that are not available to other interest holders.

An investor controls an investee when it not only has power over investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the investor's returns from its involvement with the investee. Thus, an investor with decision-making rights shall determine whether it is a principal or an agent considering all the factors below : (a) the scope of its decision-making authority over the investee ; (b) the rights held by other parties (including right to remove the decision maker) ; (c) the remuneration to which it is entitled in accordance with the remuneration agreements ; (d) the decision maker's exposure to variability of returns from other interests that it holds in the investee.

Subsidiaries are fully consolidated as of the date on which effective control is transferred to Dexia and are no longer consolidated as of the date on which Dexia's control ceases. Intercompany transactions, balances and unrealised gains and losses on transactions among Dexia's companies have been eliminated. Where necessary, the accounting policies of the subsidiaries have been amended to ensure consistency with the policies adopted by Dexia.

Changes in the Dexia's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.

When Dexia loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

• the aggregate of the fair value of the consideration received and the fair value of any retained interest; and
• the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests.

The fair value of any investment retained in the former subsidiary at the date on which control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: Recognition and Measurement" or, where applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

**1.1.3.2. Associates and joint venture.**

Associates are investments in which Dexia has significant influence, but does not exercise control. This is usually the case, when Dexia owns between 20% and 50% of the voting rights.

A joint venture is a contractual arrangement of which two or more parties undertake a jointly controlled economic activity. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement and are required to agree unanimously to decisions about the relevant activities of the arrangement.

Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, then the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The ownership share of net income for the year is recognised as income of associates or joint ventures, whereas the share in other comprehensive income of associates or joint ventures is carried on a separate line of the statement of comprehensive income and the investment is recorded in the balance sheet at an amount that reflects its share of the net assets increased with related goodwill.

Gains on transactions between Dexia and its "equity method investments" are eliminated to the extent of Dexia's interest. The recognition of losses from associates is discontinued when the carrying amount of the investment reaches zero, unless Dexia has incurred or guaranteed legal or constructive obligations in respect of the associates' undertakings or joint ventures. Where necessary, the accounting policies of the associates or joint ventures have been amended to ensure consistency with the policies adopted by Dexia.

### 1.1.4. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In accordance with IAS 32, financial assets and financial liabilities are offset (and consequently, the net amount only is reported) when Dexia has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Since 31 December 2013, the derivative instruments transacted by Dexia with clearing houses that meet the two criteria required by IAS 32 have been offset on the balance sheet.

Offsetting effects are disclosed in the note 4.3. as required by the amendment to IFRS 7 on offsetting financial assets and financial liabilities.

### 1.1.5. FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

**1.1.5.1. Foreign currency translation**

On consolidation, the statements of income and cash flow statements of foreign entities that have a functional currency different from Dexia's presentation currency are translated into Dexia's presentation currency (EUR) at the average exchange rates for the year (annual reporting) or the period (interim reporting) and their assets and liabilities are translated at the respective year-end or quarter-end exchange rates.

Exchange differences arising from the translation of the net investment in foreign subsidiaries, associates, joint ventures and of borrowings and other currency instruments designated as hedges of such investments, are recorded as a cumulative translation adjustment within shareholders' equity. On disposal of a foreign entity accompanied by a loss of control, such exchange differences are recognised in the statement of income as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities in the functional currency of the foreign entity and are translated at the closing rate.

**1.1.5.2. Foreign currency transactions**

For individual Dexia entities, foreign currency transactions are accounted for using the approximate exchange rate at the date of the transaction. Outstanding balances denominated in foreign currencies at period- or year-end are translated at period or year-end exchange rates for monetary items and non-monetary items carried at fair value. Historical rates are used for non-monetary items carried at cost. The resulting exchange differences from monetary items are recorded in the consolidated statement of income; except for the foreign exchange impact related to fair value adjustments on available-for-sale bonds, which is recorded under "Other comprehensive income". For non-monetary items carried at fair value, the exchange differences are governed by the same accounting treatment as for fair value adjustments.

### 1.1.6. FINANCIAL ASSETS AND LIABILITIES

Management uses judgement on the criteria mentioned in the paragraphs below in determining the appropriate classification of its investments at initial recognition. However, under certain conditions, financial assets could subsequently be reclassified.

**1.1.6.1. Recognition and derecognition of financial instruments**

Dexia recognises and derecognises financial assets held for trading, that require delivery within the established timeframes (a "regular way" purchase or sale), on trade date. For these financial assets, Dexia recognises in the statement of income and as of the trade date, any unrealised gains or

losses arising from revaluing the contract to fair value at the reporting date. Dexia recognises these unrealised gains and losses under "Net gains (losses) on financial instruments at fair value through profit or loss".
All other "regular way" purchases and sales of financial assets not held for trading are recognised and derecognised on the settlement date, which is the date of delivery to or by Dexia.
Dexia derecognises all or part of a financial asset if the contractual rights to the cash flows from the financial asset expire or if these contractual rights to receive the cash flows of the financial asset or substantially all of the risks and rewards of ownership are transferred. In this case, any rights or obligations created or retained at the time of transfer are recognised separately as assets and liabilities.
Dexia recognises the financial liabilities on its balance sheet when it becomes party to the contractual provisions of the instrument. Dexia derecognises financial liabilities only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

**1.1.6.2. Loans and advances due from banks and customers**

Dexia classifies non-derivative financial assets with fixed or determinable payments that are not quoted on an active market into this category (labelled by IAS 39 as Loans and Receivables – L&R) except for:
- those that Dexia intends to sell immediately or in the near term, which are classified as held for trading, and those that Dexia, upon initial recognition, designates as being at fair value through profit or loss;
- those that Dexia, upon initial recognition, designates as available-for-sale; or
- those for which Dexia may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.

Dexia recognises interest-bearing loans and advances initially at fair value plus transaction costs and subsequently at amortised cost, less any allowance for impairment. Interest is calculated using the effective interest rate method and recognised in net interest income.
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

**1.1.6.3. Financial instruments measured at fair value through profit or loss**

1.1.6.3.1. Loans and securities held for trading

Dexia reports loans held for trading purposes in the line "Financial assets at fair value through profit or loss" at their fair value, with unrealised gains and losses recorded in the statement of income under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest income is accrued using the effective interest rate method and is recognised in net interest income.
Trading securities are securities acquired for generating a profit from short-term fluctuations in price or dealer's margins, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Dexia initially recognises trading securities at fair value and subsequently remeasures them at fair value. All realised and unrealised gains and losses are recorded under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest earned is recognised in net interest income, and dividends received under "Net gains (losses) on financial instruments at fair value through profit or loss".

1.1.6.3.2. Liabilities held for trading

Liabilities held for trading are subject to the same accounting rules as those for "loans and securities held for trading".

1.1.6.3.3. Loans and securities designated at fair value through profit or loss (FVO)

In some cases and if appropriately documented, Dexia can designate a financial asset, a financial liability or a group of financial instruments as "at fair value through profit or loss" where:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- an instrument contains a non-closely related embedded derivative:
  - that significantly modifies the cash flows that otherwise would be required by the contract; or
  - for which it is not clear, with little or no analysis, that the separation of the embedded derivative is prohibited.

1.1.6.3.4. Liabilities designated at fair value through profit or loss (FVO)

For subsequent measurement, these financial liabilities are subject to the same accounting principles as described earlier under the heading "Financial instruments measured at fair value through profit or loss".

1.1.6.3.5. Derivatives – Trading portfolio

When a derivative is not designated in a hedge relationship, it is deemed to be held for trading. The main types of derivatives are the currency and the interest-rate derivatives.
Dexia, which also makes use of credit derivatives and equity derivatives, initially and subsequently measures all derivatives at the fair value obtained from quoted market prices, discounted cash flow models or pricing models, as appropriate.
All changes in fair value are recognised in the statement of income.
Dexia reports derivatives as assets when fair value is positive and as liabilities when fair value is negative.
Dexia treats certain derivatives embedded in other financial instruments as separate derivatives:

- when their risks and characteristics are not closely related to those of the host contract; and
- when the hybrid contract is not carried at fair value with unrealised gains and losses reported in the statement of income.

Dexia reports embedded derivatives which were separated under the same heading as the host contract.

### 1.1.6.4. Financial investments

#### 1.1.6.4.1. Held-to-maturity

Dexia classifies the interest-bearing financial assets with fixed maturity quoted in an active market as "Financial assets held to maturity" (HTM) when management has both the intent and the ability to hold the assets to maturity.

Dexia recognises such interest-bearing financial assets initially at fair value plus transaction costs and subsequently at amortised cost, less any allowance for impairment. Interest is recognised based on the effective interest rate method and recorded in net interest income.

#### 1.1.6.4.2. Available-for-sale

Dexia classifies financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, as "Financial assets available for sale" (AFS).

Dexia recognises financial assets initially at fair value (including transaction costs). Interest is recognised based on the effective interest-rate method and recorded in net interest income. Dexia recognises dividend income from variable-income securities under "Net gains (losses) on financial assets available for sale".

Dexia subsequently re-measures available-for-sale financial assets at fair value (see 1.1.7. Fair value of financial instruments). Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised within equity under the heading "Unrealised or deferred gains and losses".

When assets are disposed of, or impaired, Dexia recycles the related accumulated fair value adjustments in the statement of income in "Net gains (losses) on financial assets available for sale". However, the gains and losses on impaired debt instruments are recognised in "Cost of risk".

### 1.1.6.5. Impairments on financial assets

Dexia records allowances for impairment losses when there is objective evidence that a financial asset or group of financial assets is impaired as a result of one or more events occurring after initial recognition and evidencing (a) a decline in the expected cash flows and (b) the impact on the estimated future cash flows that can be reliably estimated.

#### 1.1.6.5.1. Financial assets valued at amortised cost

Dexia first assesses whether objective evidence of impairment exists individually for financial assets. If no such evidence exists, the financial assets is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

There is objective evidence of individual impairment when a counterparty has or is likely to have difficulties meeting its commitments. An asset is also likely to be impaired if it is past due for more than six months concerning loans to French local governments and more than three months for all other types of loans.

Collective impairments are recognised if an incurred risk is identified on a sector and on portfolios of assets considered sensitive and placed on watch.

***Determination of the impairment***

- Specific impairments – If there is objective evidence that loans or other receivables, or financial assets classified as held-to-maturity are impaired, the amount of the impairment on specifically identified assets is calculated as the difference between the carrying amount and the estimated recoverable amount, being the present value of expected cash flows, including judgements on the amounts recoverable from guarantees and collateral, discounted at the financial instrument's original effective interest rate (except for reclassified assets, see below). When an asset is assessed as being impaired, it is excluded from the portfolio on which a collective impairment is calculated. Assets with small balances that share similar risk characteristics follow the principles as described below.
- Collective impairments – Collective impairments cover losses incurred where there is no specific impairment but objective evidence of losses in segments of the portfolio or other lending-related commitments at the balance-sheet date. Dexia estimates them based upon the historical patterns of losses in each segment, the credit ratings allocated to the borrowers and reflecting the current economic environment in which the borrowers operate. Dexia develops for that purpose credit-risk models using an approach that combines appropriate default probabilities and loss-given defaults that are subject to regular back-testing and are based on Basel II data and risk models, consistently with the "incurred-loss" model. Assumptions are made to define the way inherent losses are modelled and to determine the required parameters, based on historical experience.

***Accounting treatment of the impairment***

Dexia recognises changes in the amount of impairment losses in the statement of income in "Cost of risk". The impairment losses are reversed through the statement of income if the increase in fair value relates objectively to an event occurring after the impairment was recognised.

When an asset is determined by management to be uncollectable, the outstanding specific impairment is reversed via the statement of income under the heading "Cost of risk" and the net loss is recorded under the same heading. Subsequent recoveries are also accounted for under this heading.

#### 1.1.6.5.2. Reclassified financial assets

In rare circumstances, Dexia can reclassify financial assets initially classified as "held for trading" or "available-for-sale" into "held-to-maturity" or "loans and receivables" categories. Thus, a reclassification to "loans and receivables" is possible when assets "available-for-sale" are not any longer quoted in active markets and when Dexia has the intent and the ability to hold the asset in the foreseeable future or to maturity. In such circumstances, the fair value at the date of transfer becomes the new amortised cost of those financial assets. Any fair value adjustment previously recognised under "Other comprehensive income" is "frozen" and amortised on the residual maturity of the instrument. Regarding the calculation of impairment, reclassified financial assets are governed by the same estimates, judgements and accounting principles as financial assets initially valued at amortised cost. If there is objective evidence that reclassified financial assets are impaired, Dexia calculates the amount of the impairment on reclassified assets as the difference between the net carrying amount of the asset and the net present value of the expected cash-flows discounted at the recalculated effective yield at the time of reclassification. Any unamortized part of the frozen AFS reserve is recycled in the statement of income and reported under the heading "Cost of risk" as a part of the impairment.

#### 1.1.6.5.3. Available-for-sale assets

Dexia recognises the impairment of available-for-sale assets on an individual basis if there is objective evidence of impairment as a result of one or more events occurring after initial recognition.

***Determination of the impairment***

• Equities – For equities quoted in an active market, any significant decline in their price (more than 50% at reporting date) or a prolonged decline (5 years) compared to the acquisition price is considered as an objective evidence of impairment. In addition, management can decide to recognise impairment losses should other objective evidence be available.

• Interest-bearing financial instruments – In the case of interest bearing financial instruments, impairment is triggered based on the same criteria as applied to individually impaired financial assets valued at amortised cost (see 1.1.6.5.1).

***Accounting treatment of the impairment***

When available-for-sale equity securities are impaired, the total AFS reserve is recycled and these impairment losses are reported by Dexia in the statement of income in "Net gains (losses) on financial assets available for sale". Additional decline in fair value is recorded under the same heading for equity securities.

When an impairment loss has been recognised on interest-bearing financial instruments, any subsequent decline in fair value is recognised in "Cost of risk" if there is objective evidence of impairment. In all other cases, changes in fair value are recognised in "Other comprehensive income".

Impairments on equity securities cannot be reversed in the statement of income due to later recovery of quoted prices.

#### 1.1.6.5.4. Off-balance-sheet exposures

Dexia usually converts off-balance-sheet exposures such as credit substitutes (e.g., guarantees and standby letters of credit) and loan commitments into on-balance-sheet items when called. However, there may be circumstances such as uncertainty about the counterparty, where the off-balance-sheet exposure should be regarded as impaired. Dexia recognises provisions on loan commitments if the credit worthiness of the client has deteriorated to such an extent as to make the repayment of any loan and associated interest payments doubtful (see 1.1.22).

### 1.1.6.6. Borrowings

Dexia recognises borrowings initially at fair value, being generally their issue proceeds, net of any transaction costs incurred. Subsequently, borrowings are stated at amortised cost. Dexia recognises any difference between their initial carrying amount and the redemption value in the statement of income over the period of the borrowings using the effective interest rate method.

The distinction between interest-bearing instruments and equity instruments issued is based on the substance of their underlying contracts rather than their legal form.

## 1.1.7. FAIR VALUE OF FINANCIAL INSTRUMENTS

### 1.1.7.1. Valuation principles

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted market prices in an active market for identical instruments are to be used as fair value, as they are the best evidence of the fair value of a financial instrument.

If a financial instrument is not traded on an active market, recourse is provided by valuation models. The objective of a valuation model is to determine the value that is most representative of fair value under current market conditions. Dexia's valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

The valuation model should take into account all factors that market participants would consider when pricing the asset. Measuring the fair value of a financial instrument requires consideration of current market conditions. To the extent that observable inputs are available, they should be incorporated into the model.

Financial assets and liabilities recognised at fair value or for which fair value is calculated for disclosures are categorized into one of three fair value hierarchy levels. The following definitions used by Dexia for the hierarchy levels are in line with IFRS 13 texts :

• Level 1 : quoted prices (unadjusted) in active markets for identical assets and liabilities;

• Level 2 : valuation techniques based on inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.

• Level 3 : valuation techniques for which significant inputs are not based on observable market data.

**1.1.7.2. Valuation techniques**

Dexia's approach to the valuation of its financial instruments (instruments at fair value through profit or loss, assets available for sale and valuations for disclosures) can be summarized as follows:

1.1.7.2.1. Financial instruments measured at fair value (held for trading, fair value option, available for sale, derivatives)

***Financial instruments measured at fair value for which reliable quoted market prices are available***

If the market is active, market prices are the most reliable evidence of fair value and therefore shall be used for valuation purposes.

The use of market prices quoted in an active market for identical instruments with no adjustments qualifies for inclusion in level 1 within IFRS 13 fair value hierarchy, contrary to the use of quoted prices in inactive markets or the use of quoted spreads.

***Financial instruments measured at fair value for which no reliable quoted market prices are available and for which valuations are obtained by means of valuation techniques***

Financial instruments for which no quoted market prices are available in an active market are valued by means of valuation techniques.

In order for a fair value to qualify for level 2 inclusion, observable market data should be significantly used. The market data that Dexia incorporates in its valuation models are either directly observable data (prices), indirectly observable data (spreads) or deducted from observable data (price or spread) for similar instruments. Fair value measurements that rely significantly on unobservable data or on own assumptions qualify for level 3 disclosure.

In order to comply with IFRS 13, applicable as from 1 January 2013, and to be in line with market practices, Dexia uses an OIS curve to determine the value of its collateralized derivatives.

Dexia has also adjusted its methodology for calculating the Credit Value Adjustment (CVA) and has recognised the Debit Value Adjustment (DVA) for derivatives. A CVA reflects the counterparty's risk of default and a DVA reflects Dexia's own credit risk.

When determining the CVA / DVA, Dexia considers two different markets :

• The market of collateralized derivatives, where there is a daily exchange of collateral, for which the CVA / DVA is calculated based on expected changes of value over a short period of time.

• The market of uncollateralized derivatives, where there is a risk on the fair value of the derivative at the balance-sheet date and also on the expected change of value over the life of the derivative.

Based on projections, positive expected exposures are used for a CVA calculation and negative expected exposures are used for a DVA calculation.

For CVA/DVA calculation, the Probability of Default (PD) parameters are based on market data and market conventions. The Loss Given Default (LGD) parameters are based on market conventions or on internal statistical data taking into account observed recovery rates.

Dexia will continue to improve its models in the next periods following market practice evolution and especially the convergence on valuation adjustments such as Funding Valuation Adjustment (FVA).

For bonds and loans for which no active market exists, Dexia maximises the use of market data.

Dexia uses a discount cash-flow model, based on a credit spread. The credit spread is estimated from market data which are directly available from external contributors (Bloomberg, Markit,…) or, when there is no data available for a given instrument, from the issuer credit curve which is adjusted to take into account the characteristics of the specific instrument (maturity,…), or, if the issuer curve is not available, from available market data for similar instruments (from the same economic sector, rating, currency,…).

1.1.7.2.2. Financial instruments measured at amortised cost (valuations in IFRS disclosures on fair value)

***Financial instruments reclassified from Trading or AFS to L&R***

As a response to the financial crisis, the IASB issued on October 13th, 2008 an amendment to IAS 39 permitting the reclassification of certain illiquid financial assets. Dexia decided to benefit from this opportunity to reclassify assets for which an active market, as well as reliable quoted prices, was no longer available. A reclassification occurred also in 2014.

These assets are valued using Dexia's approach described above for the bonds for which no active market exists.

1.1.7.2.3. Financial instruments classified in HTM and L&R since inception and liabilities

***Loans and Receivables, including mortgages loans, and liabilities are valued based on the following valuation principles***

**General principles**

• the carrying amount of loans maturing within 12 months is assumed to reflect their fair value;

• for bonds classified in HTM and L&R since inception and for liabilities, the valuation is done as for bonds classified in AFS.

The valuation of loans classified in L&R or borrowing liabilities is based on in-house developed valuation models. For this model price, Dexia uses a discount cash-flow model, based on a spread that incorporates both CDS/credit spread and cash/CDS basis. The credit spread is estimated from the security specific characteristics (sector, rating, Loss Given Default, …) and from the level of some liquid CDS indices. A cash/CDS component is added to the credit component to obtain the cash instruments spread.

Dexia will improve its models in the next periods in order to maximise the use of observable market data.

**Interest rate part**

- the fair value of fixed-rate loans or liabilities and mortgages reflects interest rate movements since inception;
- embedded derivatives, like caps, floors and prepayment options are included in determining the fair value of loans and receivables or liabilities;
- the fair value of variable-rate loans or liabilities is assumed to be approximated by their carrying amounts.

**Credit risk part**

- credit spreads changes since inception are reflected in the fair value.

### 1.1.8. INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in the statement of income for all interest bearing instruments on an accrual basis using the effective interest rate method based on the initial carrying value (including transaction costs) for financial instruments not valued at fair value through P&L.

Transaction costs are the incremental costs that are directly attributable to the acquisition of a financial asset or liability and are included in the calculation of the effective interest rate. An incremental cost is one that would not have been incurred if the entity had not acquired the financial instrument.

Accrued interest is reported in the same line as the related financial asset or liability in the balance sheet.

Once an interest bearing financial asset has been written down to its estimated recoverable amount, interest income is thereafter recognised based on the interest that was used to discount the future cash flows for measuring the recoverable amount.

### 1.1.9. FEE AND COMMISSION INCOME AND EXPENSE

Commissions and fees arising from most of Dexia's activities are recognised on an accrual basis over the life of the underlying transaction.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of loans, equity securities or other securities or the purchase or sale of businesses, are recognised when the significant act has been completed.

Loan commitment fees are recognised as part of the effective interest rate if the loan is granted, and recorded as revenue on expiry if no loan is granted.

### 1.1.10. HEDGING DERIVATIVES

Hedging derivatives are categorised as either:

- a hedge of the fair value of a recognised asset or liability or a firm commitment (fair value hedge); or
- a hedge of a future cash flow attributable to a recognized asset or liability or a forecast transaction (cash flow hedge); or
- a hedge of a net investment in a foreign operation.

Dexia designates derivatives as hedging instruments if certain criteria are met:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is available before hedge accounting is applied;
- the hedge is documented in such a way as to show that it is expected to be highly effective both prospectively and retrospectively in offsetting changes in the fair value or cash flows attributable to the hedged risk in the hedged item throughout the reporting period; and
- the hedge is effective at inception and on an ongoing basis.

Dexia records changes in the fair value of derivatives that are designated, and qualify, as fair value hedges in the statement of income, along with the corresponding change in fair value of the hedged assets or the liabilities that is attributable to that specific hedged risk.

If the hedge no longer meets the criteria for a fair value hedge, Dexia amortises the adjustment to the carrying amount of a hedged interest-bearing financial instrument to the statement of income over the remaining life of the hedged or hedging instrument if shorter by an adjustment of the yield of the hedged item.

Dexia recognises the effective part of the changes in the fair value of derivatives that are designated and qualify as cash flow hedges, in "Other comprehensive income" under the heading "Unrealised or deferred gains and losses" (see "Consolidated statement of changes in equity"). Any non-effective portion of the changes in the fair value of the hedging instrument is recognised in the statement of income. Amounts deferred in equity are transferred to the statement of income and classified as revenue or expense in the periods during which the hedged firm commitment or forecast transaction affects the statement of income.

### 1.1.11. HEDGE OF THE INTEREST RATE RISK EXPOSURE OF A PORTFOLIO

As explained in 1.1.1.1 General, Dexia makes use of the provisions in IAS 39 as adopted by the European Union ("IAS 39 carve-out") because it better reflects the way in which Dexia manages its financial instruments.

Hedge accounting is intended to reduce the interest-rate risk exposure stemming from the selected category of assets or liabilities designated as the qualifying hedged items.

Dexia performs a global analysis of interest-rate risk exposure. It consists in assessing fixed-rate exposure, taking into account all the exposure coming from balance sheet and off-balance-sheet items. This global analysis may exclude certain components of the exposure, such as financial market activities, provided that the risk exposure stemming from the excluded activities is monitored on an activity-by-activity basis.

Dexia applies the same methodology to select which assets and/or liabilities will be entered into the hedge of interest rate risk exposure of the portfolio. Assets and liabilities are included in all the time buckets of the portfolio. Hence, when they are removed from the portfolio, they must be removed

from all the time buckets in which they had an impact. Demand deposits and savings accounts may be included in the portfolio based on behavioural study for estimating expected maturity date. Dexia may designate as qualifying hedged items different categories of assets or liabilities such as available-for-sale assets or loan portfolios.
On the basis of this gap analysis, which is realised on a net basis, Dexia defines, at inception, the risk exposure to be hedged, the length of the time-bucket, the test method and the frequency of the tests.
The hedging instruments are a portfolio of derivatives, which may contain offsetting positions. Dexia recognises the hedging items at fair value with adjustments accounted for in the statement of income.
Dexia reports hedged interest rate risk revaluation of elements carried at amortised cost on the balance sheet under the line "Fair value revaluation of portfolio hedge".

### 1.1.12. DAY ONE PROFIT OR LOSS

The day one profit or loss is applicable to all transactions measured at fair value through profit or loss.
The day one profit or loss is the difference between:
• the transaction price and the quoted market price; in cases where the transaction is quoted; or
• the transaction price and the fair value determined by using a valuation technique, (mark-to-model) adjusted with some market value adjustments, such as a liquidity adjustment, model adjustment or credit adjustment in cases where the transaction is not quoted.
If Dexia considers the main parameters of the model as observable and if Risk Management validates the model, the day one profit or loss will be recognised immediately in the statement of income.
If Dexia does not consider the main parameters as observable or if Risk management does not validate the model, the day one profit or loss will be amortised linearly over the expected life of the transaction. However, if the data becomes observable subsequently, Dexia will recognise the remaining portion of day one profit or loss in the statement of income.
In cases of early termination, the remaining portion of day one profit or loss will be recognised in the statement of income. In cases of partial early termination, Dexia will recognize in the statement of income the part of the day one profit or loss relating to the partial early termination.

### 1.1.13. TANGIBLE FIXED ASSETS

Tangible fixed assets include property, plant & equipment and investment properties.
All property, plant & equipment are stated at their cost less accumulated depreciation and impairments. Subsequent costs are, where necessary, included in the carrying amount of the asset or recognised as a separate component, if it is probable that future economic benefits will flow to the Group and the cost of the asset can be reliably measured.
Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives.
The main useful lives are as follows:
• Buildings (including acquisition costs and non deductible taxes): 20 to 50 years;
• Computer equipment: 3 to 6 years;
• Leasehold improvements, equipment and furniture: 2 to 12 years;
• Vehicles: 2 to 5 years.
An item of property, plant & equipment can be composed of significant parts with individually varying useful lives. In such a case, each part is depreciated separately over its estimated useful life. The following parts have been defined:
• Structure of the building: 50 years;
• Roof and frontage: 30 years;
• Technical installations: 10 to 20 years;
• Fixtures and fittings: 10 to 20 years.
As borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset they are capitalised. Other borrowing costs are recognised as an expense.
Tangible fixed assets are tested for impairment when an indication of impairment loss exists. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Where the recoverable amount of an asset cannot be determined individually the Group determines the recoverable amount of the cash generating unit or group of cash generating units to which the asset belongs. Gains and losses on disposals of property and equipment are determined by reference to their carrying amount and are included under "Net gains (losses) on other assets".
Investment properties are those properties held to earn rentals or for capital appreciation. Dexia may also partly use such properties. If the "own use" portions can be sold separately or leased out separately under finance lease, then these portions are accounted for separately. If the "own use" portions cannot be sold separately, the property will be considered as an investment property if Dexia holds an insignificant portion for its own use.
Investment properties are recorded at its cost less accumulated depreciation and impairments. The investment properties are depreciated over their useful lives on a straight-line basis. Depreciation on buildings and other assets given in operating lease are booked under "Other expenses".

### 1.1.14. INTANGIBLE ASSETS

Intangible assets consist mainly of (a) internally generated and (b) acquired software. The costs associated with maintaining computer software programs are recognised as expense as incurred. However, expenditure that enhances or extends the benefits of computer software programs beyond one year is used to increase the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives from the time the software is available for use. This amortisation period is usually between three and five years, except for core business applications, for which the amortisation period is can be up to 10 years.

As borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset they are capitalised. Other borrowing costs are recognised as an expense.
Intangible assets (other than goodwill) are tested for impairment when an indication of impairment loss exists. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Gains and losses on disposals of intangible assets are determined by reference to their carrying amount and are included under "Net gains (losses) on other assets".

### 1.1.15. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets (or groups of assets) whose carrying amount will be recovered principally through a sale transaction rather than through continuing use are classified as non-current assets (or disposal groups) "held for sale" if:

- they are available for immediate sale in their present condition; and
- their sale is highly probable within one year.

Dexia measures a non-current asset (or disposal group) classified as held for sale at its carrying amount or at its fair value less costs to sell (whichever is the lower). Non-current assets (or disposal groups) classified as held for sale are presented separately in the balance sheet, without restatement for previous periods. When a disposal group is classified in held for sale, items of Other Comprehensive Income are isolated in a separate publication line of the equity. These assets are no longer depreciated once they qualify as assets (or disposal groups) held for sale. Intercompany accounts between the continuing activities and the disposal group held for sale continue to be eliminated.
A discontinued operation is defined as a component of an entity that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations. Post-tax profit or loss of discontinued operations is presented under a separate line in the income statement. A restatement for previous periods is performed.

### 1.1.16. GOODWILL

Dexia has no goodwill on its balance sheet and will not acquire any controlling interests in the future following the orderly resolution plan of the group.

### 1.1.17. ACCRUALS AND OTHER ASSETS

Accruals and other assets mainly include collaterals, accrued income (non-interest related), prepayments, operational taxes and other accounts receivable as well as insurance products (reinsurance, insurance premiums receivables, etc.), construction contracts, inventories, plan assets relating to employee benefit obligations. These other assets are measured in accordance with the applicable standard. Plan assets are recognised in accordance with IAS 19 (revised) requirements.

### 1.1.18. LEASES

A finance lease is one that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

#### 1.1.18.1. Dexia is the lessee

Dexia grants operating leases principally for the rental of equipment or real estate. Lease rentals are recognised in the statement of income on a straight-line basis over the lease term.
When an operating lease is terminated before the lease period has expired, any payment to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.
If the lease agreement substantially transfers the risk and rewards of ownership of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception the asset is recorded as the present value of the minimum lease payments or the fair value (whichever is the lower) and is depreciated over its estimated useful life unless the lease term is short and the title is not expected to be transferred to Dexia. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policies applicable to that asset. The corresponding rental obligations are recorded as borrowings and interest payments are recorded using the effective interest rate method.

#### 1.1.18.2. Dexia is the lessor

Dexia grants both operating and finance leases.
Revenue from operating leases is recognised in the statement of income on a straight-line basis over the lease term. The underlying asset is accounted for in accordance with the accounting policies applicable to this type of asset.
For finance leases, Dexia recognises "leases receivable" at an amount equal to the net investment in the lease, which can be different from the present value of minimum lease payments.
The interest rate implicit in the lease contract acts as the discount rate. Interest income is recognised over the term of the lease using the interest rate implicit in the lease.

### 1.1.19. SALE AND REPURCHASE AGREEMENTS AND LENDING OF SECURITIES

Securities sold subject to a linked repurchase agreement ("repos") are not derecognised because, despite the transfer of ownership of securities, there is no substantial transfer of risks and rewards and remain in their original category. The corresponding liability is entered under "Interbank borrowings and deposits" or "Customer borrowings and deposits", as appropriate. The asset is reported as "pledged" in the notes.
Securities purchased under agreements to resell ("reverse repos") are recorded as off-balance-sheet items and the corresponding loans recorded as "Interbank loans and advances" or "Customer loans and advances".
The difference between the sale and repurchase price is treated as interest income or expense and is accrued over

the life of the agreements using the effective interest rate method.
Securities lent to counterparties are not derecognised but, rather recorded in the financial statements in the same heading.
Securities borrowed are not recognised in the financial statements.
If they are sold to third parties, the gain or loss is entered under "Net gains (losses) on financial instruments at fair value through profit or loss" and the obligation to return them is recorded at fair value under "Financial liabilities at fair value through profit or loss".

## 1.1.20. DEFERRED INCOME TAX

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.
The principal temporary differences arise from the depreciation of property, plant & equipment, the revaluation of certain financial assets and liabilities (including derivative contracts, provisions for pensions and other post-retirement benefits), provisions for loan and other impairments and, in relation to acquisitions, from the difference between the fair value of the net assets acquired and their tax base.
The tax rates used are the rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.
Deferred tax assets and liabilities are not discounted. Deferred tax assets on deductible temporary differences and tax loss carry-forwards are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences and tax losses can be utilised.
Deferred tax liability is provided on taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.
Current and deferred taxes are recognised under "Corporate income tax" in the income statement. Interests on late payments related to income taxes are recognised in the interest margin in net banking income.
On the other hand, deferred tax related to the fair value remeasurement of available-for-sale investments and cash flow hedges, and other transactions recorded directly in equity, are also credited or charged directly to equity.

## 1.1.21. EMPLOYEE BENEFITS

### 1.1.21.1. Short-term benefits

Short-term benefits, payable within 12 months of the service being rendered, are measured on an undiscounted basis and recognised as an expense.
Employee entitlement to annual leave or long-service leave is recognised when it is granted to the employee. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance-sheet date.

### 1.1.21.2. Post-employment benefits

If Dexia has a legal or constructive obligation to pay post-employment benefits, the plan is either classified as "defined benefit" or "defined contribution plan". Dexia offers a number of defined benefit and defined contribution plans, the assets of which are generally held by insurance companies or pension funds. The pension plans are generally funded by payments from both Dexia and its employees.
In some cases, Dexia provides post-retirement health care benefits to its retirees.

#### 1.1.21.2.1. Defined benefit plans

Employee benefit obligations are measured at the present value of the estimated future cash outflows using the interest rates of AA-rated corporate bonds, which have terms to maturity approximating to the terms of the related liability. The valuation technique for the assessment of pension expenses incorporates actuarial assumptions comprising both demographic assumptions and financial assumptions such as the inflation rate.
For defined benefit plans, the cost is determined using the Projected Unit Credit Method, under which each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to built up the final obligation.
The amount recognised in the balance sheet is the present value of the defined benefit obligation (i.e., the present value of the expected future payments required to settle the obligation resulting from the employee service in the current and prior periods), reduced by the fair value of plan assets at the balance-sheet date. The defined obligation is presented net of plan assets as a liability or an asset. Therefore, an asset may arise where a plan has been overfunded and are recorded separately if those assets are held by a Group entity. Any asset recognised is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.
Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets (excluding net interest) and any change in the effect of the asset ceiling (excluding net interest), they are recognised immediately in other comprehensive income and are not reclassified to profit or loss in a subsequent period.
Current service cost, past service cost (which is the change in the present value of the defined benefit obligation, resulting from a plan amendment or a curtailment) and any gain or loss on settlement are recognised in profit or loss.
Net interest on the net defined benefit liability (asset) is recognised in profit or loss. It is calculated by applying the discount rate used to measure the defined benefit obligation to the net defined benefit liability (asset), both as determined at the start of the annual reporting period, and taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Qualified internal and external actuaries carry out valuations of these defined benefit obligations. All valuations assumptions and results are reviewed and validated by an external actuary for Dexia that ensures that all calculations are harmonised and calculated in compliance with IAS 19 (as revised in 2011).

#### 1.1.21.2.2. Defined contribution pension plans

Dexia's contributions to defined contribution pension plans are charged to the statement of income in the year to which they relate. Under such plans, Dexia's obligations are limited to the contributions that Dexia agrees to pay into the fund on behalf of its employees.

The Belgian defined contribution pension plans are by law subject to minimum guaranteed rates of return, currently 3.25% on employer contributions and 3.75% on employee contributions. These rates, which apply as an average over the entire career, may be modified by Royal Decree in which case the new rate(s) apply to both the accumulated past contributions and the future contributions as from the date of modification. In theory these plans qualify as defined benefit plans. However, when taken into account the historical discussions at the level of the IFRS IC on how to account for these specific type of plans where the contributions paid are subject to a minimum guaranteed return, Dexia believes the application of the projected unit credit method to these plans is troublesome and will not provide a faithful representation of the liability with respect to these promises.

Therefore, at each reporting date the "walk away liability" or the vested rights at reporting date are compared with the fair value of the plan assets. If the vested rights are higher as compared to the fair value of the plan asset, a provision is recognised for the difference.

#### 1.1.21.2.3. Retirement termination payments

Retirement termination payments are treated as defined benefit plans.

### 1.1.21.3. Other long-term benefits

These mainly includes provisions for jubilee premiums that employees receive after completion of specified periods of service.

Unlike defined benefit plans, actuarial gains and losses relating to these benefits are immediately recognised. All past service costs are recognised immediately in the statement of income.

### 1.1.21.4. Termination benefits

A termination benefit provision is recorded at the earlier of the following dates:

- when Dexia can no longer withdraw the offer of those benefits; and
- when Dexia recognises costs for a restructuring that involves the payment of termination benefits.

### 1.1.21.5. Share-based payment

Dexia offered equity-settled share-based payments like stock options plans (SOPs) and employee share purchase plans (ESPPs) and cash-settled share-based payments.

The fair value of equity-settled plans was measured at grant date by reference to the fair value of the underlying equity instrument based on valuation techniques and on market data and took into account market-based vesting conditions. The impact of other vesting conditions was reflected in the accounts via an adjustment of the number of equity instruments included in the measurement. The fair value, recognised as a remuneration expense, was credited against equity.

In cash-settled share-based payments, the services received and the liability incurred, to pay for those services, were measured at the fair value of the liability. This fair value was measured at the grant date and at each reporting date until settled. The value was recognised as a remuneration expense with a corresponding increase in liabilities.

## 1.1.22. PROVISIONS

Provisions are mainly recognised for litigations claims, restructuring, and loan commitments.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The discount rate is the pre-tax rate that reflects current market assessments of the time value of money.

Provisions are recognised when:

- Dexia has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

Provisions on loan commitments are recognised when there is uncertainty about the creditworthiness of the counterparty.

## 1.1.23. SHARE CAPITAL AND TREASURY SHARES

### 1.1.23.1. Share issue costs

External incremental costs directly attributable to the issue of new equity securities, other than as part of a business combination, are deducted from equity net of any related income tax.

### 1.1.23.2. Dividends on Dexia's ordinary shares

Dexia recognises its dividends on its ordinary shares as a liability from the date on which they are declared. Any dividends for the year declared post-balance-sheet date are disclosed in the subsequent events note.

### 1.1.23.3. Preferred shares

Dexia classifies preferred shares that are non-redeemable and upon which dividends are declared at the discretion of the directors as equity.

#### 1.1.23.4. Treasury shares

Where Dexia or its subsidiaries purchase Dexia's share capital or is obliged to purchase a fixed number of treasury shares for a fixed amount of cash, the consideration paid, including any attributable transaction costs net of income taxes, is shown as a deduction from total shareholders' equity. Gains and losses on sales of own equity securities are charged or credited to the treasury share account in equity.

### 1.1.24. FIDUCIARY ACTIVITIES

Assets and income arising thereon, together with related undertakings to return such assets to customers, are excluded from these financial statements in cases where Dexia acts in a fiduciary capacity such as nominee, trustee or agent.

### 1.1.25. RELATED-PARTY TRANSACTIONS

Two parties are considered to be related if one has the ability to control the other or exercises significant influence over the other party's financial policy or operational decisions. Transactions with companies accounted for by the equity method are reported, as are those with the Directors.

### 1.1.26. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with a maturity of less than 3 months maturity from the date of acquisition included within cash and balances with central banks, interbank loans and advances.

### 1.1.27. EARNINGS PER SHARE

The "Basic earnings per share" are calculated by dividing the net income available to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by Dexia and held as treasury shares.
For the "Diluted earnings per share", the weighted average number of ordinary shares in issue and the net income are adjusted to assume conversion of all dilutive potential ordinary shares, such as the convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when the derivatives are "in the money" and their conversion to shares would decrease net earnings per share.

## 1.2. Ownership interest in subsidiaries and other entities

#### a. Criteria for consolidation and use of the equity method

The Dexia Group applies all rules with regard to the consolidation scope resulting from:
- IFRS 10 on the preparation and presentation of consolidated financial statements;
- IFRS 3 on business combinations and the impact of accounting methods on the consolidated accounts;
- IAS 28 (revised) on Investments in associates and joint ventures;
- IFRS 11 on Joint Arrangements.

The policies laid down by these standards imply that all companies over which the Group exercises exclusive or joint control or notable influence must be consolidated.
Consequently, all companies exclusively or jointly controlled, or over which the group holds a notable influence, are consolidated.
Pursuant to the principle of a true and fair view of the financial statements of the Group, any companies whose contribution to the consolidated financial statements is not material shall not be included in the consolidation scope.

Entities are considered as non-significant when, at consolidated level, the aggregate of their total asset, liabilities, equity and net income does not exceed 1% of the total of consolidated balance sheet and net income (respectively EUR 2.47 billion and EUR 15.27 million (average on 3 years) in 2014). As at 31 December 2014, the sum of the total balance sheet and net income of unconsolidated entities does not exceed this threshold.

#### b. Changes in the consolidation scope compared with 31 December 2013

Dexia Asset Management was deconsolidated as at 1 January 2014 as a result of the finalisation of the disposal (3 February 2014). On 19 February 2014, the sale of Popular Banca Privada was completed, As at 1 January 2014, Popular Banca Privada was no longer in the scope of entities accounted for using the equity method.
The first application of IFRS 10 and IFRS 11 has limited impact on consolidation scope. Cypress Point Funding limited was deconsolidated as at 1 January 2014. This change had no material impact on the financial statements.

#### c. Impact of changes in scope on the consolidated income statement

The impact of changes in scope on 2014 financial statements are described below in section 1.3. Significant events.

### d. Scope of the Dexia Group as at 31 December 2014

All Group entities are managed in run-off, except Dexia Israel, in order to preserve the value of its commercial franchise with a view to its disposal.

#### a. Fully consolidated subsidiaries

| Name | Head office | % of capital held |
|---|---|---|
| CBX.IA 1 | 1 passerelle des Reflets, Tour Dexia, La Défense 2, 92 913 La Défense France | 100 |
| CBX.IA 2 (4) | 1 passerelle des Reflets, Tour Dexia, La Défense 2, 92 913 La Défense France | 100 |
| Crediop per le Obbligazioni Bancarie Garantite S.r.l. (1) | Via Eleonora Duse, 53 -00197 Roma Italy | 90 |
| Dexia CAD funding LLC | 445 Park Avenue 7th Floor - New York New York 10022 USA | 100 |
| Dexia CLF Banque | 1 passerelle des Reflets, Tour Dexia, La Défense 2, 92 913 La Défense France | 100 |
| Dexia CLF Régions Bail | 1 passerelle des Reflets, Tour Dexia, La Défense 2, 92 913 La Défense France | 100 |
| Dexia Crédit Local SA | 1 passerelle des Reflets, Tour Dexia, La Défense 2, 92 913 La Défense France | 100 |
| Dexia Crediop | Via Venti Settembre 30 - 00187 Roma Italy | 70 |
| Dexia Crediop Ireland (1) | 6 George's Dock IFSC Dublin 1 -Ireland | 100 |
| Dexia Crédito Local México SA de CV Sofom Filial | Protasio Tagle 104 Colonia San Miguel Chapultepec - 11850 Mexico D.F. | 100 |
| Dexia Delaware LLC | 15, East North Street - Dover, Delaware 19901 - USA | 100 |
| Dexia Financial Products Services LLC (6) | 445 Park Avenue, 5th floor - 10022 NY | 100 |
| Dexia Flobail | 1 passerelle des Reflets, Tour Dexia, La Défense 2, 92 913 La Défense France | 100 |
| Dexia FP Holdings Inc (5) | 445 Park Avenue, 5th floor - 10022 NY | 100 |
| Dexia Holdings, Inc | 445 Park Avenue, 5th floor - 10022 NY | 100 |
| Dexia Israel Bank Ltd. (2) | 19 Ha'arbaa str., Hatichon Tower - Tel Aviv PO BOX 709 - Tel Aviv 61200 - Israël | 65.31 |
| Dexia Kommunalbank Deutschland AG | Charlottenstrasse 82 - D - 10969 Berlin Germany | 100 |
| Dexia LdG Banque SA | 42, rue de la Vallée, L-2661 Luxembourg | 100 |
| Dexia Management Services limited | 200 Aldersgate Street, 13th Floor London EC1A 4HD , UK | 100 |
| Dexia Nederland BV | Parnassusweg 819, NL- 1082 LZ Amsterdam | 100 |
| Dexia Real Estate Capital Markets | 1180 NW Maple St., Suite 202 - Issaquah, WA 98027 USA | 100 |
| Dexia Sabadell SA (3) | Calle Mahonia, 2 - 4ª planta, 28043 Madrid | 79.01 |
| FSA Asset Management LLC (6) | 445 Park Avenue, 5th floor - 10022 NY | 100 |
| FSA Capital Management Services LLC (6) | 445 Park Avenue, 5th floor 10022 NY | 100 |
| FSA Capital Markets Services LLC (6) | 445 Park Avenue, 5th floor - 10022 NY | 100 |
| FSA Global Funding LTD (5) | P.O Box 1093 GT, Boundary Hall, Cricket square,Grand Cayman, Cayman Islands, KY1 -1102, Cayman Islands | 100 |
| FSA Portfolio Asset Limited (UK) (6) | Shackleton House 4 Battle Bridge Lane London SE1 2 RB | 100 |
| Nederlandse Standaard I.J. (into liquidation) | Piet Heinkade 55, NL- 1019GM Amsterdam | 100 |
| Premier International Funding Co (7) | P.O Box 1093 GT, Boundary Hall, Cricket square,Grand Cayman, Cayman Islands, KY1 -1102, Cayman Islands | 0 |
| SISL | 180 rue des Aubépines L1145 Luxembourg | 100 |
| Sumitomo Mitsui SPV | Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi Chiyoda-ku Tokyo 100-8233 Japan | 100 |

| Name | Head office | % of capital held |
|---|---|---|
| Tevere Finance S.r.l (1) | Via Eleonora Duse, 53 - 00197 Roma Italy | 100 |
| White Rock Insurance (Gibraltar) PCC Limited, CELL DSA - SPV | 913B Europort Gibraltar | 100 |
| WISE 2006-1 PLC | Custome House Plaza Block 6 - IFSC Dublin 1- Ireland | 100 |

*(1) Companies consolidated by Dexia Crediop.*
*(2) 65,99% of voting rights held.*
*(3) The portion of the capital held in Dexia Sabadell SA is of 79.01%.*
*Furthermore, as a result of the exercise of a put option on its shares by Banco Sabadell on 6 July 2012, not yet executed, the percentage interest in the company is now 100%.*
*(4) CBX.IA2 is 70.85% held by Dexia Crédit Local and 29.15% by CBX.IA 1.*
*(5) Companies consolidated by Dexia Holdings Inc.*
*(6) Companies consolidated by Dexia FP Holdings Inc.*

## B. Non - fully consolidated subsidiaries

| Name | Head office | % of capital held | Reason for exclusion |
|---|---|---|---|
| CBX. GEST | 1 passerelle des Reflets, Tour Dexia, La Défense 2, 92 913 La Défense France | 99.94 | Below materiality threshold |
| DCL Evolution | 1 passerelle des Reflets, Tour Dexia, La Défense 2, 92 913 La Défense France | 99.76 | Below materiality threshold |
| Dexia Kommunalkredit Adriatic | Radnicka cesta 80 HR - 10000 Zagreb Croatia | 100 | Below materiality threshold |
| Dexia Kommunalkredit Bulgaria | 19 Karnigradska Sofia 1000 - Bulgaria | 100 | Below materiality threshold |
| Dexia Kommunalkredit Hungary | Horvat u. 14-24 - 1027 Budapest - Hungary | 100 | Below materiality threshold |
| Dexia Kommunalkredit Romania | Str. Faragas nr 21 Sector 1, 010897 Bucuresti, Romania | 100 | Below materiality threshold |
| Dexiarail | 1 passerelle des Reflets, Tour Dexia, La Défense 2, 92 913 La Défense France | 100 | Below materiality threshold |
| Genebus Lease | 1 passerelle des Reflets, Tour Dexia, La Défense 2, 92 913 La Défense France | 99.89 | Below materiality threshold |
| Hyperion Fondation Privée | Place du Champs de Mars 5, Brussels | 100 | Below materiality threshold |

## C. Joint companies consolidated by the proportionate method

Nil.

## D. Joint companies non consolidated by the proportionate method

Nil.

## E. Associated companies accounted for by the equity method

Nil.

### F. Associated companies not accounted for by the equity method

| Name | Head Office | % of capital held | Reason for exclusion |
|---|---|---|---|
| European public infrastructure managers | 4, rue Jean-Pierre Brasseur L-1258 Luxembourg | 20.0 | Below materiality threshold |
| Impax New Energy Investor | 67, rue Ermesinde L - 1469 Luxembourg | 24.99 | Below materiality threshold |
| La Cité | 35 rue de la Gare F-75019 Paris | 25.5 | Below materiality threshold |
| SNC du Chapitre | 72, rue Riquet F-31000 Toulouse | 50 | Below materiality threshold |
| South European Infrastructure Equity Finance | 4, rue Jean-Pierre Brasseur L-1258 Luxembourg | 21 | Below materiality threshold |
| SPS - Sistema Permanente di Servizi Scpa in liquidazione e concordato preventivo | Via Livorno, 36 00162 Roma Italy | 20.4 | Below materiality threshold |

*Nature of the risks associated with an entity's interests in consolidated structured entities*

As part of the sale of FSA to Assured Guaranty, Dexia retained the Financial Products activity and, generally, agreed to indemnify FSA and Assured Guaranty for any losses they may suffer in relation to that activity. The Financial Products activity includes the Global Funding business which includes a portion of the assets and liabilities of FSA Global Funding and of Premier International Funding Co.

Dexia did not provide, financial or other support to a consolidated structured entity when Dexia was not contractually obliged to do so, nor has an intention to do so in the future. Dexia did not provide financial or other support resulted in the entity controlling the structured entity.

### e. Significant restrictions on assets and liabilities of an entity

Following IFRS 12, Dexia provides the list of significant restrictions on its ability to access or use the assets and settle the liabilities of the Group.

The information regarding financial assets pledged as collateral for liabilities or contingent liabilities is presented in note 7.3.b.

The assets guaranteeing the secured debt issued by covered bonds entities and the guaranteed investment contracts are presented in note 7.3.b.

Certain assets held by Dexia and benefiting from a credit risk hedge in the form of a guarantee or even a CDS are subject to some legal restrictions, commonly called "Representation to Hold clauses"(1)

Some restrictions concern structured entities. They take the form of segregation of assets in order to satisfy the obligations of the issuer to the noteholders as well as requirement of agreement from the insurer or the guarantor.

Pursuant to the European Commission Decision of 28 December 2012, there is a general ban on the payment of any form of dividend by any subsidiary controlled directly or indirectly by Dexia, in particular when such a payment would entail mandatory payment of a coupon on Tier 1 hybrid instruments or Tier 2 instruments held by persons other than Dexia and its subsidiaries.

Regulated entities are required to comply with regulatory requirements applicable to them.

Furthermore, some regulators limit the ability of a subsidiary or branch under their supervision, to finance the parent company above a certain threshold.

The preferential rights of class B shares are presented in note 4.8.

### f. Interest in unconsolidated structured entities

There are mainly a special purpose vehicle that was designed in order to provide clients with an access to a specific market dedicated to institutional investors and a securitization vehicle (FCC) of loans to customer. These vehicles are financed through issuance of notes

| **Interests in unconsolidated structured entities** (in EUR million) | **Securitisation Special Purpose Entities** | **Other activities** | **Total** |
|---|---|---|---|
| Derivatives | 267 | | 267 |
| Debt securities | 216 | 439 | 655 |
| Loans and advances | | 24 | 24 |
| **TOTAL** | **483** | **463** | **946** |
| **Total assets of unconsolidated structured entities** | **750** | **612** | **1,362** |

The maximum exposure to loss is the fair value of derivatives and the amortised costs of other instruments.

*(1) Guarantee contracts with monoliners (or with banks acting as intermediary for monoliners) contain "representation to hold clauses" which (more or less strictly) oblige the beneficiary to hold the guaranteed assets until the end-term of the guarantee.*

Dexia is considered to be a sponsor of a structured entity when it is primarily involved in the design and establishment of the structured entity and when it transferred assets to the structured entity or provided guarantees regarding the structured entity's performance. Dexia, as a run-off structure does not have income anymore from sponsored structure without interest in the entity as at 31 December 2014.

### g. Subsidiaries with minority interests that are material

Minority interests are considered material when they represent more than 5% of equity group share or when minority interests represent more then 5% of total assets.

| Dexia Crediop S.p.a | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Percentage of ownership held by minority interests | 30% | 30% |
| Principle place of business | Italy | Italy |
| Accumulated minority interests | 346 | 292 |
| Profit or loss allocated to minority interests | (10) | (12) |
| Dividend paid to non-controlling interests | 0 | 0 |
| Assets (in EUR million) | 36,417 | 37,695 |
| Liabilities (in EUR million) | 35,222 | 36,678 |
| Equity (in EUR million) | 1,195 | 1,017 |
| Net banking income (in EUR million) | 12 | 19 |
| Profit or loss (in EUR million) | (33) | (39) |
| Total comprehensive income (in EUR million) | 20 | (178) |

## 1.3. Significant events in 2014

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 2014 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 required under the resolution plan approved by the European Commission. 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 organization.

### CONTINUATION OF THE GROUP'S ORDERLY RESOLUTION PLAN

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

During the first half of 2014, Dexia completed its entity disposal programme required under the orderly resolution plan, reaching the target scope. Specifically, Dexia sold all of its shares in Dexia Asset Management (DAM) to New York Life Investments on 3 February 2014 for a price of EUR 380 million, realizing a capital gain of EUR 69 million. This was followed on 19 February 2014 by the sale of Dexia's stake in Popular Banca Privada to Banco Popular Espanol for a firm price of EUR 49 million with a capital gain of EUR 21 million.

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.

The completion of the sale of Société de Financement Local (SFIL) in January 2013 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.

**Further implementation of the Company Project**

In May 2013, the Group launched a "Company Project" aimed at redefining its strategic objectives, its governance and the optimal operational model for the implementation of its resolution plan.

#### a – Adapting the business model

The Dexia Group implemented its new organizational structure and governance. Two business lines, Assets and Transformation, have been created, dedicated, respectively, to the management of the assets and client relationships and to the transformation of the Group's operating model. The internal organization of the existing business lines Funding & Markets, Finance and Risk has also been streamlined, resulting in the creation of new teams, the transfer of staff across business lines and changes in functional content.

The Group's governance has been rendered more flexible by instituting a Transaction Committee that brings together the Heads of Assets, Funding & Markets, Finance, Risk and Legal and is authorized to approve Assets and Funding transactions within the delegation given by the Management Board.

#### b - Overhauling information systems

The Group launched in 2014 several studies in order to ensure adequacy between its information systems and strategic objectives during the resolution period. In this context, Dexia invested in a dedicated software-application in order to support the development of its Repo lending platform.

In order to strengthen the quality and consistency of data across the Group, a single database will be built and gradually replace various local databases.

## IMPACT OF THE INTEREST AND FOREIGN EXCHANGE RATE ENVIRONMENT ON THE GROUP'S LIQUIDITY SITUATION

The overall level of interest rates, currently at historical lows, and the depreciation of the euro against its other major currencies have yielded in an increase of the funding requirements of the Group. This was mainly due to higher net cash collateral[1] needed to be posted by Dexia to its counterparties. These amounted to EUR 31 billion at 31 December 2014, up from EUR 22 billion at 31 December 2013.
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 [1] requirements raises costs for the Group.
Finally, the continued decline in Eurozone 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.

## DEVELOPMENTS WITH REGARD TO CREDIT RISK

Dexia pursued an active balance sheet management policy and sold its direct exposure to the City of Detroit, recording a gain of USD 32 million after reversal of impairments. 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.
Dexia increased its collective impairment on the renewable energy sector up to EUR 49 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.
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).

*(1) Deposits or financial instruments posted by Dexia to its counterparties in order to secure obligations under interest rate or currency swaps.*

At 31 December 2014 Dexia had no longer any direct exposure to Greek sovereigns. Exposure to other Greek counterparties amounted to EUR 156 million at the end of December 2014.

## 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 and hospitals facing financial difficulties, through the implementation of two support funds. The resources of these two mechanisms will be sharply increased in 2015, as announced by the French government on 24 February 2015, to enable "contracts to be definitively desensitised and refinanced in order to neutralise their risk. In real terms, the envelope of assistance offered to local authorities, inter-communal groups and HLM (rent-controlled housing) offices for the desensitisation of their sensitive structured loan contracts was increased from EUR 1.5 billion to EUR 3 billion over 15 years, and that available for the same loans to public hospitals was raised from EUR 100 million to EUR 400 million. More information about structured loans and about the evolution of the regulatory framework in France is provided in chapter "Risk Management" of this annual report.

## EVOLUTION OF THE REGULATORY ENVIRONMENT

**First-time application of the Basel III solvency rules**

The Basel III solvency rules (CRR and CRD IV) came into force on 1 January 2014. They significantly amend the modes of calculating the regulatory capital and the weighted risks. A transition period to the new regulatory framework is foreseen between 2014 and 2019.

### a – Harmonization of the national discretions with respect to the regulatory solvency ratios

The CRD IV Directive provides for the deductibility of the AFS (Available for Sale) reserve from the regulatory capital, whilst authorizing national discretions. The National Bank of Belgium (NBB) and the French "Autorité de Contrôle Prudentiel et de Résolution" (ACPR) have confirmed that the rules applicable to Dexia 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. For both Dexia Group and Dexia Crédit Local, the AFS reserve on sovereign securities does not have to be taken into account for the calculation of the solvency ratios and the AFS reserve relating to non-sovereign exposures has to be deducted gradually from the regulatory capital (increment of of 20% per year).

#### b – Liquidity coverage ratio: Eligibility of state-guaranteed debt as level 1 asset

As part of the implementation of the Basel III framework, the European Commission published a supplemental Delegated Act on 10 October 2014 related to the liquidity coverage requirement for credit institutions. This publication specifies the nature of assets which qualify as high quality liquid assets (HQLA), and their classification as level 1 and level 2 assets when determining the Liquidity Coverage Ratio (LCR). This ratio is planned to come into effect gradually during 2015.
The State-guaranteed debt issued by Dexia Crédit Local meets these conditions and is therefore eligible as a level 1 high quality liquid asset (HQLA) in calculating the LCR.
The HQLA level 1 eligibility of Dexia Crédit Local's State-guaranteed debt is a favorable outcome for the Group funding as it is expected to increase the appetite of financial institutions required to comply with the LCR for Dexia's guaranteed debt.

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

The European Central Bank performed a 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.
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 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 -49.5 million on Dexia's regulatory capital in 2014. 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 on their request to Dexia and Dexia Crédit Local's regulatory capital on 31 March 2014. In accordance with the Group's management intentions and the IAS39 accounting standard provisions, Dexia also decided to reclassify the most illiquid bonds from the Available for sale category to 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.

As a systemically important bank, Dexia has been subject to the direct supervision of the European Central Bank within the framework of the Single Supervisory Mechanism since 4 November 2014.

## 1.4. Post-balance-sheet events

**Evolution on the foreign exchange market**

On the foreign exchange market, the Swiss franc appreciated by almost 30% following the decision by the Swiss National Bank to abandon the cap for the Swiss franc which had been held for some three years.
The potential impacts for Dexia have been analysed and taken into account in the financial statements as at 31 December 2014.

**Favourable evolution of the funding structure of the Group**

Since 2015, the Group successfully executed three guaranteed benchmark issues: an issue of EUR 1.750 billion reaching maturity in 2022 on 12 January 2015; on 23 January 2015, in volatile market conditions, Dexia took advantage of an open market window to execute successfully a new 5 year issue for a notional of USD 1.5 billion and finally, on 10 February, Dexia realised a new 10 year issue for an amount of GBP 700 million.
As at 27 February 2015, Dexia finalised the repayment plan of several significant funding lines, resulting in a favourable evolution of its funding structure:
• At the end of 2014 and the beginning of 2015, the Group repaid the outstanding of Belfius-owned guaranteed debt, for an amount of EUR 12.8 billion;
• On 27 February 2015, Dexia also repaid EUR 13 billion of own-used government guaranteed bonds pledged to the Eurosystem refinancing operations. This repayment is in line with the progressive exit in 2015 from this derogation funding mechanism granted by the European Central Bank.

In anticipation of those significant maturities, the Group adopted a prudent approach of its liquidity management. The amounts repaid were replaced by guaranteed or secured funding raised on the financial markets.

The outstanding debt guaranteed by the States of Belgium, France and Luxembourg was reduced from EUR 82.0 billion as at 17 February 2015 to EUR 70.0 billion as at 27 February 2015. The maximum ceiling is EUR 85 billion. The recourse to central bank funding was reduced from EUR 33.5 billion as at the end of 2014 to EUR 28.0 billion as at 27 February 2015.

**Information relating to Dexia Group exposure to Heta Asset Resolution AG**

On 1 March 2015, under the Federal Act on the Recovery and Resolution of Banks (Bundesgesetz über die Sanierung und Abwicklung von Banken), the Austrian Financial Market Authority (FMA-Finanzmarktaufsicht) issued a decree initiating the resolution of Heta Asset Resolution AG, previously Hypo Alpe Adria Bank International AG, responsible for managing the legacy assets of Hypo Alpe Adria in run-off, and imposed a temporary moratorium until 31 May 2016 on a substantial part of the debt of the entity (capital and interests).

Dexia notes this decision and states that the nominal value of its exposure to Heta Asset Resolution AG, affected by this moratorium, amounts to EUR 395 million. This exposure has the benefit of a guarantee granted by the State of Carinthia. This outstanding is booked on Dexia Kommunalbank Deutschland AG's balance sheet, it being specified that it is not included in the cover pool of Dexia Kommunalbank Deutschland AG.

The Dexia Group is currently studying the appropriate actions to be taken with regard to the decision of the FMA.

Nevertheless, as a precaution and following the announcement on 1 March 2015, the Group will book a specific provision on its exposure in the first quarter 2015, the amount of which will be determined in light of further developments of the situation.

# 2. Notes on the assets

(Some amounts may not add up due to roundings off)



## 2.0. Cash and central banks (Item I - Assets)

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Cash | 4 | 0 |
| Mandatory reserve deposits with central banks | 164 | 629 |
| Other central banks deposits | 1,576 | 2,474 |
| **TOTAL** | **1,745** | **3,104** |
| *of which included in cash and cash equivalents* | *1,745* | *3,104* |

## 2.1. Financial assets at fair value through profit or loss (Item II - Assets)

This line includes both the portfolio held for trading and all financial assets at fair value through profit or loss (see point regarding "Financial assets at fair value through profit or loss" in note 1.1. "Accounting policies and valuation methods").

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Loans and securities | 1,802 | 1,814 |
| Derivatives (see note 4.1.b) | 16,546 | 22,400 |
| **TOTAL** | **18,348** | **24,215** |

**a. Analysis by counterparty of loans and securities at fair value through profit and loss**

| | 31/12/2013 | | | 31/12/2014 | | |
|---|---|---|---|---|---|---|
| (in EUR million) | Held for trading | Designated at fair value | Total | Held for trading | Designated at fair value | Total |
| Public sector | 0 | 6 | 6 | 0 | 6 | 6 |
| Other | 1,774 | 22 | 1,796 | 1,787 | 21 | 1,808 |
| **TOTAL** | **1,774** | **28** | **1,802** | **1,787** | **27** | **1,814** |

### b. Analysis by nature of loans and securities at fair value through profit and loss

| (in EUR million) | 31/12/2013 Held for trading | 31/12/2013 Designated at fair value | 31/12/2013 Total | 31/12/2014 Held for trading | 31/12/2014 Designated at fair value | 31/12/2014 Total |
|---|---|---|---|---|---|---|
| Bonds issued by public bodies | 0 | 0 | 0 | 0 | 0 | 0 |
| Other bonds and fixed-income instruments | 1,774 | 27 | 1,801 | 1,787 | 27 | 1,814 |
| Equities and other variable-income instruments | 0 | 1 | 1 | 0 | 1 | 1 |
| **TOTAL** | **1,774** | **28** | **1,802** | **1,787** | **28** | **1,814** |

### c. Treasury bills and other eligible bills for refinancing with central banks

Nil.

### d. Securities pledged under repurchase agreements (repos)

Nil.

### e. Analysis by maturity and interest rate

See notes 7.6. and 7.4.

### f. Analysis of the fair value

See note 7.1.

### g. Reclassification of financial assets (IAS 39 amended)

See note 2.13.

## 2.2. Financial assets available for sale (Item IV - Assets)

### a. Analysis by counterparty

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Public sector | 14,981 | 14,288 |
| Banks | 8,700 | 7,728 |
| Other | 5,413 | 4,494 |
| **Performing assets** | **29,094** | **26,510** |
| Impaired bonds issued by public bodies | 0 | 0 |
| Other impaired bonds and fixed-income instruments | 69 | 72 |
| Impaired equities and other variable-income instruments | 131 | 139 |
| **Impaired assets** | **200** | **211** |
| **TOTAL ASSETS BEFORE IMPAIRMENT** | **29,294** | **26,721** |
| Specific impairment | (70) | (80) |
| **TOTAL ASSETS AFTER IMPAIRMENT** | **29,224** | **26,641** |

**b. Analysis by nature**

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Bonds issued by public bodies | 12,114 | 11,549 |
| Other bonds and fixed-income instruments | 16,774 | 14,875 |
| Equities and other variable-income instruments | 406 | 297 |
| **TOTAL** | **29,294** | **26,721** |
| Specific impairment | (70) | (80) |
| **TOTAL** | **29,224** | **26,641** |

**c. Transfers between portfolios**
None.

**d. Convertible bonds included in the available for sale portfolio (positions higher than EUR 50 million)**
None.

**e. Analysis by maturity and interest rate**
See notes 7.6. et 7.4.

**f. Analysis of fair value**
See note 7.1.

**g. Analysis of quality**
See note 2.12.

**h. Reclassification of financial assets (IAS 39 amended)**
See note 2.13.

## 2.3. Interbank loans and advances (Item V - Assets)

**a. Analysis by nature**

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Nostri accounts | 638 | 653 |
| Reverse repurchase agreements *(reverse repos)* | 550 | 1,573 |
| Other interbank loans and advances | 4,153 | 3,112 |
| Debt instruments | 3,471 | 3,239 |
| **Performing assets** | **8,812** | **8,577** |
| **Impaired assets** | **0** | **0** |
| **TOTAL ASSETS BEFORE IMPAIRMENT** | **8,812** | **8,577** |
| Collective impairment | (5) | (14) |
| **TOTAL** | **8,807** | **8,563** |
| *of which included in cash and cash equivalents* | *1,056* | *2,029* |

**b. Analysis by maturity and interest rate**
See notes 7.6. et 7.4.

**c. Analysis of fair value**

See note 7.1.

**d. Analysis of quality**

See note 2.12.

**e. Reclassification of financial assets (IAS 39 amended)**

See note 2.13.

## 2.4. Customer loans and advances (Item VI - Assets)

### a. Analysis by counterparty

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Public sector | 79,629 | 88,853 |
| Other | 48,978 | 46,095 |
| **Performing assets** | **128,607** | **134,948** |
| Impaired loans and advances | 855 | 885 |
| Impaired debt instruments | 536 | 277 |
| **Impaired assets** | **1,391** | **1,162** |
| **TOTAL ASSETS BEFORE IMPAIRMENT** | **129,998** | **136,110** |
| Specific impairment | (545) | (309) |
| Collective impairment | (414) | (490) |
| **TOTAL** | **129,039** | **135,311** |
| *of which included in finance leases* | *1,630* | *1,533* |

### b. Analysis by nature

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Loans and advances | 81,445 | 80,884 |
| Debt instruments | 47,162 | 54,064 |
| **Performing assets** | **128,607** | **134,948** |
| Impaired loans and advances | 855 | 885 |
| Impaired debt instruments | 536 | 277 |
| **Impaired assets** | **1,391** | **1,162** |
| **TOTAL ASSETS BEFORE IMPAIRMENT** | **129,998** | **136,110** |
| Specific impairment | (545) | (309) |
| Collective impairment | (414) | (490) |
| **TOTAL** | **129,039** | **135,311** |
| *of which included in finance leases* | *1,630* | *1,533* |

### c. Analysis by maturity and interest rate

See notes 7.6. and 7.4.

### d. Analysis of fair value

See note 7.1.

### e. Analysis of quality

See note 2.12.

### f. Reclassification of financial assets (IAS 39 amended)

See note 2.13.

## 2.5. Financial assets held to maturity (Item VIII - Assets)

### a. Analysis by counterparty

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Public sector | 310 | 226 |
| Banks[1] | 78 | 50 |
| Other[1] | 49 | 29 |
| **Performing assets** | **437** | **306** |
| **Impaired assets** | **0** | **0** |
| **TOTAL ASSETS BEFORE IMPAIRMENT** | **437** | **306** |
| Specific impairment | 0 | 0 |
| Collective impairment | 0 | 0 |
| **TOTAL** | **437** | **306** |

*(1) Figures as at 31 December 2013 have been restated.*

### b. Analysis by nature

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Bonds issued by public bodies | 287 | 208 |
| Other bonds and fixed-income instruments | 149 | 97 |
| **TOTAL** | **437** | **306** |

### c. Analysis by maturity and interest rate

See notes 7.6. and 7.4.

### d. Analysis of fair value

See note 7.1.

### e. Analysis of quality

See note 2.12.

## 2.6. Tax assets (Items IX and X - Assets)

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Current tax assets | 193 | 32 |
| Deferred tax assets (see note 4.2.) | 42 | 41 |

## 2.7. Accruals and other assets (Item XI - Assets)

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Other assets | 728 | 1,223 |
| Cash collateral | 26,542 | 37,033 |
| **TOTAL** | **27,270** | **38,256** |

**Other assets**

| **Analysis by nature** (in EUR million) | **31/12/2013** | **31/12/2014** |
|---|---|---|
| Accrued income | 8 | 7 |
| Deferred expense | 27 | 26 |
| Other accounts receivable | 691 | 1,184 |
| Other taxes | 2 | 6 |
| **Performing assets** | **728** | **1,223** |
| **Impaired assets** | **9** | **2** |
| **TOTAL ASSETS BEFORE IMPAIRMENT** | **737** | **1,225** |
| Specific impairment | (9) | (2) |
| **TOTAL** | **728** | **1,223** |

## 2.8. Tangible fixed assets (Items XV - Assets)

**a. Net book value**

| | **Land and buildings** | | **Office furniture and other equipment** | | **Total** |
|---|---|---|---|---|---|
| (in EUR million) | **Own use owner** | **Own use finance lease** | **Own use owner** | **Operating lease** | |
| **Acquisition cost as at 1 Jan. 2013** | **401** | **1** | **95** | **228** | **725** |
| - Acquisitions | 0 | 0 | 2 | 41 | 43 |
| - Disposals | 0 | (1) | (3) | (39) | (43) |
| - Change in scope of consolidation (out ) | (6) | 0 | (14) | (230) | (250) |
| - Transfers and cancellations | 0 | 0 | (1) | 0 | (1) |
| - Other | 0 | 0 | 0 | 1 | 1 |
| **Acquisition cost as at 31 Dec. 2013 (A)** | **395** | **0** | **79** | **1** | **475** |
| **Accumulated depreciation and impairment as at 1 Jan. 2013** | **(67)** | **(1)** | **(74)** | **(81)** | **(223)** |
| - Depreciation booked | (7) | 0 | (5) | (15) | (27) |
| - Disposals | 0 | 1 | 3 | 16 | 20 |
| - Change in scope of consolidation (out) | 5 | 0 | 10 | 80 | 95 |
| - Transfers and cancellations | 0 | 0 | 1 | 0 | 1 |
| **Accumulated depreciation and impairment as at 31 Dec. 2013 (B)** | **(69)** | **0** | **(65)** | **0** | **(134)** |
| **Net book value as at 31 Dec. 2013 (A)+(B)** | **326** | **0** | **14** | **1** | **339** |

| | Land and buildings | Office furniture and other equipment | | Total |
|---|---|---|---|---|
| (in EUR million) | Own use owner | Own use owner | Operating lease | |
| **Acquisition cost as at 1 Jan. 2014** | **395** | **79** | **1** | **475** |
| - Acquisitions | 0 | 3 | 0 | 3 |
| - Disposals | 0 | (3) | 0 | (3) |
| - Transfers and cancellations | 0 | (2) | 0 | (2) |
| - Translation adjustments | 0 | 2 | 0 | 2 |
| **Acquisition cost as at 31 Dec. 2014 (A)** | **396** | **78** | **1** | **474** |
| **Accumulated depreciation and impairment as at 1 Jan. 2014** | **(69)** | **(65)** | **0** | **(134)** |
| - Depreciation booked | (7) | (4) | 0 | (12) |
| - Disposals | 0 | 3 | 0 | 3 |
| - Transfers and cancellations | 0 | 3 | 0 | 3 |
| - Translation adjustments | 0 | (2) | 0 | (2) |
| **Accumulated depreciation and impairment as at 31 Dec. 2014 (B)** | **(77)** | **(66)** | **0** | **(143)** |
| **Net book value as at 31 Dec. 2014 (A)+(B)** | **319** | **12** | **1** | **331** |

**b. Fair value of investment property**

Nil

**c. Capitalised expenditures for the construction of tangible fixed assets**

Nil

**d. Contractual obligations relating to investment property at the end of the period**

Nil

**e. Contractual obligations relating to property, plant and equipment at the end of the period**

Nil

## 2.9. Intangible assets (Item XVI - Assets)

| (in EUR million) | 2013 Internally developed software | 2013 Other intangible assets[1] | 2013 Total | 2014 Internally developed software | 2014 Other intangible assets[1] | 2014 Total |
|---|---|---|---|---|---|---|
| **Acquisition cost as at 1 January** | **174** | **134** | **308** | **164** | **127** | **291** |
| - Acquisitions | 7 | 3 | 10 | 3 | 7 | 11 |
| - Disposals | (1) | (3) | (4) | (2) | 0 | (2) |
| - Change in scope of consolidation (out) | (16) | (6) | (22) | 0 | 0 | 0 |
| - Transfers and cancellations | 0 | 0 | 0 | (7) | (2) | (9) |
| - Translation adjustments | 0 | (1) | (1) | | 2 | 2 |
| **Acquisition cost as at 31 December (A)** | **164** | **127** | **291** | **158** | **136** | **294** |
| **Accumulated depreciation and impairment as at 1 January** | **(138)** | **(127)** | **(265)** | **(146)** | **(118)** | **(264)** |
| - Booked | (20) | (1) | (21) | (9) | (6) | (16) |
| - Change in scope of consolidation (out) | 11 | 6 | 17 | 0 | 0 | 0 |
| - Write-back | 1 | 2 | 3 | 0 | 0 | 0 |
| - Disposals | 0 | 1 | 1 | 2 | 0 | 2 |
| - Transfers and cancellations | 0 | 0 | 0 | 7 | 2 | 9 |
| - Translation adjustments | 0 | 1 | 1 | 0 | (2) | (2) |
| **Accumulated depreciation and impairment as at 31 December (B)** | **(146)** | **(118)** | **(264)** | **(146)** | **(125)** | **(271)** |
| **Net book value as at 31 December (A)+(B)** | **18** | **9** | **28** | **12** | **11** | **23** |

*(1) Other intangible assets include primarily purchased software.*

## 2.10. Goodwill (Item XVII - Assets)

| (in EUR million) | 2013 | 2014 |
|---|---|---|
| **Acquisition cost as at 1 January** | **322** | **0** |
| - Change in scope of consolidation (out)[1] | (73) | 0 |
| - Transfers | (249) | 0 |
| **Acquisition cost at 31 December** | **0** | **0** |
| **Accumulated amortisation and impairment as at 1 January** | **(263)** | **0** |
| - Change in scope of consolidation (out)[1] | 14 | 0 |
| - Transfers | 249 | 0 |
| **Accumulated amortisation and impairment as at 31December** | **0** | **0** |
| **Carrying amount as at 31 December** | **0** | **0** |

*(1) Sale of Sofaxis*

## 2.11. Leases

### a. Group as lessor

### Finance leases

| **Gross investment in finance leases** (in EUR million) | **31/12/2013** | **31/12/2014** |
|---|---|---|
| Less than 1 year | 109 | 107 |
| 1 year to 5 years | 371 | 397 |
| Over 5 years | 1,148 | 1,027 |
| **Subtotal (A)** | **1,628** | **1,531** |
| Unearned future finance income on finance leases (B) | 0 | 0 |
| **Net investment in finance leases (A)-(B)** | **1,628** | **1,531** |

| **Additional information** (in EUR million) | **31/12/2013** | **31/12/2014** |
|---|---|---|
| Estimated fair value of finance leases | 1,626 | 1,531 |

### Operating leases

| **Future net minimum lease receivables under operating leases** (in EUR million) | **31/12/2013** | **31/12/2014** |
|---|---|---|
| Less than 1 year | 1 | 2 |
| 1 year to 5 years | 2 | 7 |
| Over 5 years | 0 | 1 |
| **TOTAL** | **3** | **10** |

**b. Group as lessee**

### Finance leases

None

### Operating leases

| Future net minimum lease payments under non-cancellable operating leases (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Less than 1 year | 7 | 8 |
| 1 year to 5 years | 27 | 27 |
| Over 5 years | 1 | 1 |
| **TOTAL** | **35** | **35** |
| Future minimum sublease payments expected to be received under non-cancelable subleases at the balance sheet date | 1 | 1 |

Figures as at 31 December 2013 have been restated.

| Lease and sublease payments recognised as expenses during the year (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Minimum lease payments | 5 | 3 |
| Contingent lease payments | 0 | 1 |
| Sublease payments | 0 | 0 |
| **TOTAL** | **5** | **4** |

## 2.12. Quality of financial assets

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| **Analysis of performing financial assets** | | |
| Interbank loans and advances | 8,812 | 8,577 |
| Customer loans and advances | 128,607 | 134,948 |
| Financial assets held to maturity | 437 | 306 |
| Financial assets available-for-sale | 29,094 | 26,511 |
| *Fixed revenue instruments* | *28,819* | *26,353* |
| *Variable revenue instruments* | *275* | *158* |
| Other accounts receivable (note 2.7) | 691 | 1,184 |
| **TOTAL PERFORMING FINANCIAL ASSETS** | **167,641** | **171,525** |
| Collective impairment | (419) | (503) |
| **NET TOTAL PERFORMING FINANCIAL ASSETS** | **167,222** | **171,022** |

| (in EUR million) | Gross amount | | Specific Impairment | | Net amount | |
|---|---|---|---|---|---|---|
| | 31/12/2013 | 31/12/2014 | 31/12/2013 | 31/12/2014 | 31/12/2013 | 31/12/2014 |
| **Analysis of impaired financial assets** | | | | | | |
| Customer loans and advances | 1,391 | 1,161 | (545) | (309) | 846 | 852 |
| Financial assets available-for-sale | 200 | 211 | (70) | (80) | 130 | 131 |
| *Fixed revenue instruments* | *69* | *72* | *(32)* | *(43)* | *37* | *29* |
| *Variable revenue instruments* | *131* | *139* | *(38)* | *(37)* | *93* | *102* |
| Other accounts receivable (note 2.7) | 9 | 2 | (9) | (2) | 0 | 0 |
| **TOTAL** | **1,600** | **1,374** | **(624)** | **(391)** | **976** | **983** |
| | | | | | | |
| **Analysis of performing and impaired financial assets** | | | | | | |
| Interbank loans and advances | 8,812 | 8,577 | 0 | 0 | 8,812 | 8,577 |
| Customer loans and advances | 129,997 | 136,109 | (545) | (309) | 129,453 | 135,801 |
| Financial assets held to maturity | 437 | 306 | 0 | 0 | 437 | 306 |
| Financial assets available-for-sale | 29,294 | 26,721 | (70) | (80) | 29,224 | 26,641 |
| *Fixed revenue instruments* | *28,888* | *26,425* | *(32)* | *(43)* | *28,856* | *26,381* |
| *Variable revenue instruments* | *406* | *297* | *(38)* | *(37)* | *368* | *260* |
| Other accounts receivable (note 2.7) | 700 | 1,186 | (9) | (2) | 691 | 1,184 |
| **TOTAL FINANCIAL ASSETS** | **169,240** | **172,899** | **(624)** | **(391)** | **168,617** | **172,509** |
| Collective impairment | | | | | (419) | (503) |
| **NET TOTAL** | **169,240** | **172,899** | **(624)** | **(391)** | **168,198** | **172,006** |

## 2.13. Reclassification of financial assets (IAS 39 amended)

On 1 October 2008, the Dexia Group decided to apply the amendment of IAS 39 and IFRS 7 "Reclassification of Financial Assets" for some assets, and opted to reclassify certain assets from "Financial assets held for trading" to "Financial assets available for sale" or "Loans and advances", as well as from "Financial assets available for sale" to "Loans and advances". In 2013, "Financial assets held for trading" reclassified as "Financial assets available for sale" left the Group's portfolio as a result of their maturity or their disposal to external parties.
On 1 October 2014, the Dexia Group also reclassified bonds from "Financial assets available for sale" to "Loans and advances".
Figures are those of the consolidated companies at the closing date. As at 31 December 2013, only figures of the continuing activities are presented. As at 31 December 2014, figures of all consolidated companies are disclosed.

| | 31/12/2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| **Continuing activities** (in EUR million) | **Carrying amount of assets reclassified, at 1 October 2008** | **Carrying amount of reclassified assets at 31 December 2013** | **Fair value of reclassified assets at 31 December 2013** | **Amount not taken through profit or loss due to reclassification** | **Amount not taken through AFS Reserve due to reclassification** | **Premium/ Discount amortisation through net income** | **Premium/ Discount amortisation through AFS reserve** |
| From "Financial assets held for trading" to "Loans and advances" | 3,565 | 1,718 | 1,557 | (161) | | 3 | |
| From "Financial assets available for sale" to "Loans and advances" | 64,396 | 41,169 | 40,303 | | (866) | | 213 |

| (in EUR million) | 31/12/2014 Carrying amount of assets reclassified, at 1 October 2008 | Carrying amount of reclassified assets at 1 October 2014 | Carrying amount of reclassified assets at 31 December 2014 | Fair value of reclassified assets at 31 December 2014 | Amount not taken through profit or loss due to reclassification | Amount not taken through AFS Reserve due to reclassification | Premium/ Discount amortisation through net income | Premium/ Discount amortisation through AFS reserve |
|---|---|---|---|---|---|---|---|---|
| From "Financial assets held for trading" to "Loans and advances" | 3,565 | | 1,726 | 1,589 | (137) | | 2 | |
| From "Financial assets available for sale" to "Loans and advances" | 64,396 | 2,544 | 47,313 | 44,320 | | (2,993) | | 177 |

On 1 October 2014, the Dexia Group identified "Financial assets available for sale", eligible under the amendment IAS 39 and which, at the reclassification date, met the conditions of classification in "Loans and advances", were no longer quoted on an active market and for which it had a clear change of intent and ability to hold for the foreseeable future rather than to exit or trade in the short term.
The reclassifications were made at the fair value of the assets at the reclassification date.
The effective interest rates at reclassification date on assets reclassified on 1 October 2014 ranged from 0.32% to 21.1%. The reimbursement amount of those assets reclassified amounted to EUR 2.6 billion. If these financial assets had not been reclassified, in 2014, there would have been a further positive movement of EUR 32 million in shareholders' equity, in "*Gains and losses directly recognised in equity*".
The impact of this reclassification in the consolidated statement of income is limited to the impact in cost of risk for an amount about EUR -14 million.

## IMPACT OF THE RECLASSIFICATION ON EQUITY AND RESULT

**a. Transfer from "Financial assets held for trading" to "Loans and advances"**

The difference between the carrying amount at the reclassification date and the reimbursement amount is amortised over the remaining life of the reclassified asset. The impact of this amortisation on net income for the period is disclosed in the column "Premium/discount amortisation through profit or loss".
At closing date, the difference between the carrying amount of reclassified assets and their fair value represents the cumulative changes in fair value from reclassification date until the closing date. It also includes the cumulative amortisation of the premium or discount since reclassification. In 2014 as well as in 2013, the difference is negative as spreads have increased.

**b. Transfer from "Financial assets available for sale" to "Loans and advances"**

The Dexia Group's available-for-sale portfolio is very specific as it consists of securities with very long maturities, resulting in significant changes in value following small shifts in spreads. The impact of the transfer on the cost of risk consists in the net amount of accruals and use of collective as well as specific impairments.
In 2014, a EUR 18 million charge was recorded as collective impairment (in 2013, the amount was EUR +15 million).
When there is objective evidence of impairment for a financial asset initially classified in "Financial assets available for sale" but reclassified in "Loans and advances" in accordance with the amended IAS 39, any difference between the carrying amount and the net present value of expected future cash flows, discounted at the effective interest rate as at the reclassification date is recognised as an impairment loss. Consequently, any unamortised outstanding amount recognised in the available-for-sale reserve is also recognised as an impairment loss. This category mainly includes non-economic losses that would have been reversed in the future through net interest income.
The carrying amount of reclassified assets increases due to the mixed effects of, on the one hand, the decrease in interest rates leading to the increase of the hedged interest rate risk element and the appreciation of the USD against EUR generating an increase of the carrying amount of assets denominated in USD, and, on the other hand, from the decreases coming mainly from partial or early repayments, maturities or sales.
The difference between the carrying amount of a reclassified asset and its fair value reflects the evolution of credit and liquidity spreads on the markets together with the discontinuation of the use of an internal model based on credit spread paramaters for the valuation of less liquid financial assets.

**c. Impact of reclassifications on the interest margin**

For assets transferred from "Financial assets available for sale" to "Loans and advances", the amortisation of the premium/discount on the asset is offset by the amortisation of the fair value reserve frozen at the time of reclassification, without any resulting impact on net interest income.

The impact on the interest margin due to reclassification of "Financial assets held for sale" to "Loans and advances" amounted to EUR 2 million in 2014 (EUR 3 million in 2013).

## 2.14. Transfer of financial assets

The Group enters into transactions as repurchase agreements, securities lending agreements or total return swaps, in which the Group transfers financial assets, mainly loans and advances or debt securities, but retains substantially all of the risks and rewards.
Due to this retention, the transferred financial assets are not derecognised and the transfers are accounted for as secured financing transactions.

| | 31/12/2013 | | 31/12/2014 | |
|---|---|---|---|---|
| (in EUR million) | Carrying amount of assets | Carrying amount of associated liabilities | Carrying amount of assets | Carrying amount of associated liabilities |
| **Loans and advances not derecognised due to following transactions:** | | | | |
| Repurchase agreements | 11,509 | 11,228 | 22,828 | 19,904 |
| **TOTAL** | **11,509** | **11,228** | **22,828** | **19,904** |
| **Financial assets held to maturity not derecognised due to following transactions:** | | | | |
| Repurchase agreements | 13 | 13 | 0 | 0 |
| **TOTAL** | **13** | **13** | **0** | **0** |
| **Financial assets available for sale not derecognised due to following transactions:** | | | | |
| Repurchase agreements | 1,857 | 1,933 | 10,181 | 9,490 |
| Total return swaps | 400 | 483 | 0 | 0 |
| **TOTAL** | **2,257** | **2,416** | **10,181** | **9,490** |
| **Financial assets held for trading not derecognised due to following transactions:** | | | | |
| Repurchase agreements | 130 | 139 | 83 | 83 |
| **TOTAL** | **130** | **139** | **83** | **83** |
| **TOTAL** | **13,909** | **13,795** | **33,092** | **29,477** |

# 3. Notes on the liabilities

(some amounts may not add up due to roundings off)



## 3.0. Central banks (Item I - Liabilities)

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Central banks [1] | 34,274 | 33,845 |
| TOTAL | 34,274 | 33,845 |

*(1) Given the scarcity of interbank liquidity, the Group continued to use in 2013 and 2014 the refinancing facilities offered by central banks.*

## 3.1. Financial liabilities at fair value through profit or loss (Item II - Liabilities)

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Liabilities designated at fair value | 2,327 | 2,222 |
| Derivatives (see note 4.1.) | 16,514 | 23,509 |
| TOTAL | 18,840 | 25,731 |

### a. Analysis by nature of liabilities held for trading

Nil

### b. Analysis by nature of liabilities designated at fair value

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Non-subordinated liabillities | 2,327 | 2,222 |
| TOTAL | 2,327 | 2,222 |

### c. Analysis by maturity and interest rate

See note 7.4.and 7.6.

### d. Analysis of fair value

See note 7.1. and 7.2.h. for the own credit risk.

The "Fair Value Option" (FVO), for financial liabilities is mainly used in the following situations:
1) By Dexia Financial Products Inc. and FSA Global Funding Ltd for liabilities where the hedge accounting requirements are not met or there is a risk that they will not be met, the FVO is used as an alternative in order to reduce volatility in profit or loss.

The following types of liabilities are subject to the FVO classification:
a) Fixed rate liabilities that are highly customised funding contracts tailored to the specific needs of the investor (GIC activities). The own credit spread is calculated based on a benchmark spread;
b) FSA Global Funding fixed rate liabilities.
The credit spread used is the Long Term Funding spread used by Dexia for its own funding.

2) In case of issuance of debt with embedded derivatives.

## 3.2. Interbank borrowings and deposits (Item IV - Liabilities)

### a. Analysis by nature

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Demand deposits | 33 | 40 |
| Repurchase agreements | 16,766 | 29,811 |
| Other debts | 14,401 | 14,752 |
| **TOTAL** | **31,201** | **44,604** |

### b. Analysis by maturity and interest rate

See note 7.4. and 7.6.

### c. Analysis of fair value

See note 7.1.

## 3.3. Customer borrowings and deposits (Item V - Liabilities)

### a. Analysis by nature

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Demand deposits | 2,198 | 1,617 |
| Term deposits | 5,017 | 4,829 |
| **Total customer deposits** | **7,215** | **6,446** |
| Repurchase agreements | 1 | 1 |
| Other borrowings | 1,374 | 1,511 |
| **Total customer borrowings** | **1,375** | **1,512** |
| **TOTAL** | **8,590** | **7,958** |

### b. Analysis by maturity and interest rate

See note 7.4. and 7.6.

### c. Analysis of fair value

See note 7.1.

## 3.4. Debt securities (Item VI - Liabilities)

### a. Analysis by nature

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Certificates of deposit | 28,201 | 19,495 |
| Non-convertible bonds (1) | 68,167 | 70,023 |
| **TOTAL (2) (3)** | **96,368** | **89,518** |

*(1) As at 31 December 2014, the amount of covered bonds was EUR 21.2 billion (EUR 24.4 billion in 2013).*
*(2) As at 31 December 2014, the total amount issued with the State guarantee was EUR 73 billion (EUR 76 billion in 2013), of which EUR 19 billion (19 billion in 2013) have been purchased or subscribed by Group companies.*
*(3) The implementation of the orderly resolution plan has given rise to a dispute with a creditor of Dexia Crédit Local, formerly affiliated with the Group and currently in liquidation. The creditor has alleged that one of the main disposals by the Group - on the terms required by the orderly resolution plan - has triggered an event of default in respect of the notes held by it. Dexia considers this allegation to be without merit and will contest it vigorously.*

#### b. Analysis by maturity and interest rate

See note 7.4. and 7.6..

#### c. Analysis of fair value

See note 7.1.

## 3.5. Tax liabilities (Items VIII and IX - Liabilities)

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Current tax liabilities | 6 | 2 |
| Deferred tax liabilities (see note 4.2) | 135 | 152 |

## 3.6. Accruals and other liabilities (Item X - Liabilities)

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Other liabilities | 863 | 1,416 |
| Cash collateral | 5,124 | 5,856 |
| **TOTAL** | **5,987** | **7,272** |

#### Other liabilities

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Accrued costs | 35 | 39 |
| Deferred income | 32 | 33 |
| Grants | 83 | 76 |
| Other assistance received | 1 | 1 |
| Salaries and social charges (payable) | 13 | 16 |
| Dividends payable to shareholders | 94 | 94 |
| Other taxes | 22 | 24 |
| Other accounts payable and other liabilities | 582 | 1,133 |
| **TOTAL** | **863** | **1,416** |

## 3.7. Provisions (Item XIII - Liabilities)

### a. Analysis by nature

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Litigation claims [(1)] | 194 | 284 |
| Restructuring | 53 | 31 |
| Defined benefit plans | 8 | 16 |
| Other long-term employee benefits | 2 | 2 |
| Provision for off-balance-sheet credit commitments | 52 | 7 |
| Onerous contracts | 3 | 4 |
| Other provisions | 2 | 10 |
| **TOTAL PROVISIONS** | **313** | **353** |

*(1) This item includes a provision related to desensitisation of structured credits in France.*

### b. Movements

| (in EUR million) | Litigation claims | Restructuring | Pensions and other employee benefits | Provision for off-balance-sheet credit commitments | Onerous contracts | Other provisions | Total |
|---|---|---|---|---|---|---|---|
| **AS AT 01/01/2013** | **100** | **73** | **16** | **53** | **5** | **4** | **251** |
| Additions | 113 | 4 | 2 | 7 | 0 | 2 | 128 |
| Unused amounts reversed and amounts utilised during the year | (17) | (49) | (7) | (7) | (1) | (3) | (84) |
| Change in consolidation scope (out) | 0 | 0 | (2) | 0 | 0 | (1) | (3) |
| Translation adjustment | (2) | 0 | 0 | 0 | 0 | 0 | (2) |
| Other movements | 0 | 26 | 0 | 0 | 0 | 0 | 26 |
| **AS AT 31/12/2013** | **194** | **53** | **10** | **52** | **3** | **2** | **313** |

| (in EUR million) | Litigation claims | Restructuring | Pensions and other employee benefits | Provision for off-balance-sheet credit commitments | Onerous contracts | Other provisions | Total |
|---|---|---|---|---|---|---|---|
| **AS AT 01/01/2014** | **194** | **53** | **10** | **52** | **3** | **2** | **313** |
| Additions | 124 | 4 | 6 | 0 | 0 | 9 | 143 |
| Unused amounts reversed and amounts utilised during the year | (84) | (26) | (4) | (1) | (1) | (1) | (117) |
| Actuarial gains and losses | 0 | 0 | 6 | 0 | 0 | 0 | 6 |
| Other transfers | 44 | 0 | 0 | (44) | 0 | 0 | 0 |
| Translation adjustment | 6 | 0 | 0 | 0 | 1 | 0 | 7 |
| **AS AT 31/12/2014** | **284** | **31** | **18** | **7** | **4** | **10** | **353** |

### c. Provisions for pension and other long term benefits

After the sale of most of its operating subsidiaries, Dexia only holds several subsidiaries with significant staff number in a few countries. Except commitments for legal pension and for defined contribution plans, commitments for defined benefit plans are limited.
They mainly concern retirement allowances in France, pension plans in Italy and pension plans for Belgian staff of the holding with less than 100 people.
Due to the downsizing of the Group, the commitments decrease accordingly and the DBO (defined benefit obligation, long-term employee benefits and post-retirement obligations) represents less than 5% of consolidated equity. The provision for retirement and other employee benefits (actuarial liabilities less corresponding assets) amounts to EUR 17 million as at 31 Decembrer 2014 and EUR 9 million as at 31 December 2013.

### d. Defined contribution plan

Dexia has Belgian "Defined Contribution (DC)" plans, which are insured externally. The Belgian minimum legal return on employer and employee contributions has always been reached. The minimum liability of the plans is lower than EUR 1 million and is therefore not significant.

## 3.8. Subordinated debt (Item XIV - Liabilities)

### a. Analysis by nature

**Convertible subordinated debt**
Nil.

**Non-convertible subordinated debts**

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Perpetual subordinated notes | 0 | 0 |
| Other subordinated notes | 644 | 498 |
| **TOTAL** | **644** | **498** |

List available on request

### b. Analysis by maturity and interest rate

See notes 7.4. and 7.6.

### c. Analysis of fair value

See note 7.1.

## 3.9 Information on equity

### a. Capital stock

As at 1 January 2014, the subscribed capital of Dexia amounted to EUR 500,000,000 represented by 30,896,352,895 shares, of which 1,948,984,474 no per value class A shares and 28,947,368,421 no per value class B shares.
There has been no change in 2014.
The ordinary shareholder's meeting of 14 May 2014 acted the cancellation of all rights attached to the VVPR Strips following the amendment of Belgian legislation, and as a consequence, acted formally the cancellation of the 684,333,504 existing VVPR strips.

### b. Super-subordinated perpetual note

In 2012, Dexia Credit Local repurchased EUR 644 million of Deeply Subordinated Non-Cumulative Notes issued on 18 November 2005 for EUR 700 million at the price of 24% ( expressed in percentage of nominal), generating a result of EUR 486 million net of costs. The notes were booked in minority interests. The result has been booked in shareholders' equity, in accordance with the IFRS standards. Henceforth, the outstanding is EUR 56 million, booked in minority interests.
Moreover, in 2012, Dexia purchased Deeply Subordinated Non-Cumulative Notes issued on October 2006 by Dexia Funding Luxembourg (91.84% of the outstanding) acquired by Belfius (previously DBB) pursuant to the tender offer it launched on 20 February 2012. The original issue amount was EUR 498 million, of which Belfius purchased EUR 458 million. Following the merger of Dexia and DFL, as at 1 January 2012, the notes still held by the investors (EUR 40 million) have been booked in shareholders' equity since 2012, and no longer in minority interests.

### c. Other movements

Other movements in core equity in 2013 comprise:
- the difference of EUR 130 million between the estimated impact in 2012 and the realised impact due to the settlement of derivatives between Dexia Crédit Local and Dexia Municipal Agency, shown in equity, in accordance with the IFRS rules on corrections of estimations.
- an amount of EUR - 3 million due to the first time application of IAS 19R Employee Benefits
- an amount of EUR - 3 million due to the change in scope of consolidation, in particular the disposal of ADTS

Other movements in gains and losses directly recognised in equity comprise:
- an amount of EUR +146 million of unrealised or deferred gains and losses recycled through result following the deconsolidation of Dexia Municipal Agency, Sofaxis and ADTS
- an amount of EUR - 3 million due to the first time application of IAS 19R Employee Benefits

In 2014, other movements in equity amounted to EUR -10 million, due to the deconsolidation of the Dexia Asset Management Group.

# 4. Other Notes on the balance sheet

(some amounts may not add up due to roundings off)



## 4.1. Derivatives

### a. Analysis by nature

| | 31/12/2013 | | 31/12/2014 | |
|---|---|---|---|---|
| (in EUR million) | Assets | Liabilities | Assets | Liabilities |
| **Derivatives at fair value through profit or loss (see notes 2.1. and 3.1.)** | **16,546** | **16,514** | **22,400** | **23,509** |
| Derivatives designated as fair value hedges | 5,045 | 19,629 | 7,270 | 29,734 |
| Derivatives designated as cash flow hedges | 146 | 819 | 190 | 1,298 |
| Derivatives designated as portfolio hedges | 754 | 1,817 | 914 | 2,799 |
| **Hedging derivatives** | **5,945** | **22,265** | **8,374** | **33,832** |
| **TOTAL DERIVATIVES** | **22,491** | **38,779** | **30,775** | **57,341** |

### b. Detail of derivatives at fair value through profit or loss

| | 31/12/2013 | | | | 31/12/2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Notional amount | | Assets | Liabilities | Notional amount | | Assets | Liabilities |
| (in EUR million) | To receive | To deliver | | | To receive | To deliver | | |
| **Interest rate derivatives** | **237,223** | **236,857** | **14,330** | **15,824** | **240,923** | **240,300** | **20,071** | **22,484** |
| OTC options | 964 | 762 | 250 | 15 | 1,019 | 798 | 324 | 21 |
| OTC other | 236,121 | 235,918 | 14,080 | 15,809 | 235,844 | 235,439 | 19,747 | 22,463 |
| Organised market other | 139 | 177 | 0 | 0 | 4,060 | 4,063 | 0 | 0 |
| **Equity derivatives** | **10** | **10** | **0** | **0** | **4** | **4** | **0** | **0** |
| OTC other | 10 | 10 | 0 | 0 | 4 | 4 | 0 | 0 |
| **Foreign exchange derivatives** | **34,354** | **33,752** | **1,688** | **545** | **27,968** | **27,402** | **1,696** | **844** |
| OTC options | 615 | 615 | 295 | 0 | 290 | 216 | 150 | 0 |
| OTC other | 33,739 | 33,136 | 1,393 | 545 | 27,678 | 27,186 | 1,546 | 844 |
| **Credit derivatives** | **5,438** | **1,555** | **528** | **145** | **5,385** | **1,551** | **634** | **182** |
| Credit default swaps | 5,438 | 1,555 | 528 | 145 | 5,385 | 1,551 | 634 | 182 |
| **TOTAL** | **277,025** | **272,174** | **16,546** | **16,514** | **274,280** | **269,256** | **22,400** | **23,509** |

### c. Detail of derivatives designated as fair value hedges

| | 31/12/2013 | | | | 31/12/2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Notional amount | | Assets | Liabilities | Notional amount | | Assets | Liabilities |
| (in EUR million) | To receive | To deliver | | | To receive | To deliver | | |
| **Interest rate derivatives** | **108,407** | **108,322** | **4,514** | **17,359** | **97,754** | **97,677** | **6,398** | **26,322** |
| OTC options | 759 | 693 | 0 | 47 | 169 | 112 | 0 | 53 |
| OTC other | 107,648 | 107,628 | 4,514 | 17,312 | 97,585 | 97,565 | 6,398 | 26,269 |
| **Equity derivatives** | **647** | **556** | **78** | **1** | **482** | **391** | **73** | **0** |
| OTC options | 91 | 0 | 61 | 0 | 91 | 0 | 62 | 0 |
| OTC other (1) | 556 | 556 | 17 | 1 | 391 | 391 | 12 | 0 |
| **Foreign exchange derivatives** | **9,178** | **9,350** | **453** | **2,269** | **9,015** | **8,806** | **799** | **3,412** |
| OTC other | 9,178 | 9,350 | 453 | 2,269 | 9,015 | 8,806 | 799 | 3,412 |
| **TOTAL** | **118,232** | **118,228** | **5,045** | **19,629** | **107,251** | **106,874** | **7,270** | **29,734** |

*(1) This position includes hedging derivatives for securities with revenues partly linked to the evolution of a basket of shares.*

### d. Detail of derivatives designated as cash flow hedges

| | 31/12/2013 | | | | 31/12/2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Notional amount | | Assets | Liabilities | Notional amount | | Assets | Liabilities |
| (in EUR million) | To receive | To deliver | | | To receive | To deliver | | |
| **Interest rate derivatives** | **16,560** | **16,560** | **145** | **559** | **5,591** | **5,591** | **189** | **788** |
| OTC other | 16,560 | 16,560 | 145 | 559 | 5,591 | 5,591 | 189 | 788 |
| **Foreign exchange derivatives** | **422** | **587** | **1** | **260** | **1,112** | **1,254** | **1** | **510** |
| OTC other | 422 | 587 | 1 | 260 | 1,112 | 1,254 | 1 | 510 |
| **TOTAL** | **16,982** | **17,147** | **146** | **819** | **6,703** | **6,845** | **190** | **1,298** |

### e. Detail of derivatives designated as hedges of a net investment in a foreign entity

Nil.

### f. Detail of derivatives designated as portfolio hedges

| | 31/12/2013 | | | | 31/12/2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Notional amount | | Assets | Liabilities | Notional amount | | Assets | Liabilities |
| (in EUR million) | To receive | To deliver | | | To receive | To deliver | | |
| Portfolio fair value hedges of interest rate risk | 22,714 | 22,714 | 754 | 1,817 | 24,855 | 24,855 | 914 | 2,799 |
| **TOTAL** | **22,714** | **22,714** | **754** | **1,817** | **24,855** | **24,855** | **914** | **2,799** |

## 4.2. Deferred taxes

### a. Analysis by nature

| (in EUR million) | 31/12/2013 Continuing operations | 31/12/2013 Disposal groups held for sale | 31/12/2014 |
|---|---|---|---|
| Deferred tax assets | 4,304 | 38 | 4,511 |
| Unrecognised deferred tax assets | (4,262) | (12) | (4,470) |
| **Recognised deferred tax assets (see note 2.6) (1)** | **42** | **26** | **41** |
| **Deferred tax liabilities (voir note 3.5) (1)** | **(135)** | **0** | **(152)** |
| **TOTAL** | **(93)** | **26** | **(111)** |

*(1) Deferred tax assets and liabilities are netted out when they concern the same tax entity.*

The effects of movements in deferred tax on net income and on unrealised or deferred gains and losses are analysed in note 5.11. « Income tax» and in the «Consolidated statement of comprehensive income» respectively.

### b. Movements for continuing operations

| (in EUR million) | 2013 | 2014 |
|---|---|---|
| **AS AT 1 JANUARY** | **(196)** | **(93)** |
| Charge/credit recognised in the income statement: «Income tax» | 106 | (2) |
| Movements directly recognized in shareholders' equity | (11) | (14) |
| Change in scope of consolidation | 3 | 0 |
| Translation adjustment | 6 | (3) |
| Other movements | 0 | 1 |
| **AS AT 31 DECEMBER** | **(93)** | **(111)** |

### c. Deferred taxes from continuing operations

| | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Deferred tax assets | 4,304 | 4,511 |
| Deferred tax liabilities | (135) | (152) |
| **DEFERRED TAXES** | **4,169** | **4,359** |

| **Deferred taxes coming from assets of the balance sheet** (in EUR million) | 2013 Total | 2013 of which, change through profit or loss | 2014 Total | 2014 of which, change through profit or loss |
|---|---|---|---|---|
| Loans (and loan loss provisions) | (573) | 530 | (1,408) | (1,006) |
| Securities | (771) | (126) | (1,458) | (634) |
| Derivatives | (2,376) | (1,863) | (1,157) | 1,134 |
| Tangible fixed assets and intangible assets | (11) | 3 | (10) | 0 |
| Accruals and other assets | 19 | 0 | 15 | (6) |
| **TOTAL** | **(3,712)** | **(1,456)** | **(4,018)** | **(512)** |

| Deferred taxes coming from liabilities of the balance sheet (in EUR million) | 2013 Total | 2013 of which, change through profit or loss | 2014 Total | 2014 of which, change through profit or loss |
|---|---|---|---|---|
| Derivatives | 3,905 | 1,900 | 3,525 | (253) |
| Borrowings, deposits and debt securities | 1,110 | (388) | 1,747 | 637 |
| Provisions | 86 | (12) | 75 | (13) |
| Pensions | 5 | (2) | 4 | (1) |
| Non-deductible provisions | (23) | 173 | 22 | 45 |
| Accruals and other liabilities | (57) | 3 | (79) | (11) |
| **TOTAL** | **5,026** | **1,674** | **5,294** | **404** |

| Deferred taxes coming from other elements (in EUR million) | 2013 Total | 2013 of which, change through profit or loss | 2014 Total | 2014 of which, change through profit or loss |
|---|---|---|---|---|
| Tax losses carried forward | 2,883 | 242 | 3,098 | 188 |
| Entity with special tax status | (28) | 5 | (15) | 13 |
| **TOTAL** | **2,855** | **247** | **3,083** | **201** |

| | 2013 | 2014 |
|---|---|---|
| **TOTAL DEFERRED TAXES** | **4,169** | **4,359** |

## d. Expiry date of unrecognised deferred tax assets - continuing operations

| Nature | 31/12/2013 Between 1 to 5 years | 31/12/2013 Over 5 years | 31/12/2013 Unlimited maturity | 31/12/2013 Total |
|---|---|---|---|---|
| Temporary difference | 0 | 0 | (1,473) | (1,473) |
| Tax losses carried forward | (1,147) | (104) | (1,538) | (2,789) |
| **TOTAL** | **(1,147)** | **(104)** | **(3,011)** | **(4,262)** |

| Nature | 31/12/2014 Between 1 to 5 years | 31/12/2014 Over 5 years | 31/12/2014 Unlimited maturity | 31/12/2014 Total |
|---|---|---|---|---|
| Temporary difference | 0 | 0 | (1,450) | (1,450) |
| Tax losses carried forward | (1,444) | 0 | (1,576) | (3,020) |
| **TOTAL** | **(1,444)** | **0** | **(3,026)** | **(4,470)** |

## 4.3. Offsetting financial assets and financial liabilities

The following table presents the amounts of financial assets and liabilities before and after offsetting. This information is required by the amendment to IFRS 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities" which is effective as from 1 January 2013.
The column "Gross amounts set off on the balance sheet" discloses the amounts offset in accordance with the IAS 32 criteria described in note "Accounting principles and rules governing the consolidated financial statements". Amounts set off are related to Dexia's derivative instruments and repurchase agreements traded with clearing houses and the amounts are non-significant.
The column "Impact of Master Netting agreements and similar agreements" includes the amounts of financial instruments that are subject to an enforceable master netting arrangement or similar agreement but which do not meet the offsetting criteria defined by IAS 32. This is the case of Dexia's transactions that are subject to ISDA Master Netting Agreements and Global Master Repurchase Agreements for which offsetting can only be performed in case of default, insolvency or bankruptcy of one of the counterparties.
The Dexia Group Master Netting Agreement ("DGMNA") dated as of 2 November 2009 had been concluded between Dexia, Banque Internationale à Luxembourg S.A. (formerly known as Dexia Banque Internationale à Luxembourg S.A.), Belfius Bank SA/NV (formerly known as Dexia Bank Belgium SA/NV), Dexia Crédit Local and Dexia Crediop SpA. The DGMNA permits netting or "Set-Off" amounts owed under transactions governed by different agreements, including one or more ISDA Master agreements or other trading agreements ("Principal Agreements") between the parties to the DGMNA. The DGMNA essentially aims at allowing netting in the event of a default on behalf of one of the parties, and therefore permits netting only when the transactions under the Principal Agreements are accelerated, terminated, liquidated or canceled (a so-called "Close Out" situation).
When a party is in default under the DGMNA, each other non defaulting Party may elect to Close Out all of the transactions under each Principal Agreement to which such non defaulting Party is a party.
Banque Internationale à Luxembourg is no longer part of the DGMNA since 29 January 2014.
The columns "Cash collateral" and "Financial instruments received or given as collateral" disclose the amounts related to financial collateral. They mainly include Dexia's guarantee deposits and securities received or given as collateral and disclosed at their fair value. These guarantees can only be exercised in case of default, insolvency or bankruptcy of one of the counterparties.
Dexia includes instruments at their recognized amounts, however the amount of collateral is limited to the amount of the guaranteed asset or liability.

### a. Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

| | 31/12/2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Gross amounts of financial assets | Gross amounts set off on the balance sheet | Net amounts of financial assets presented on the balance sheet | Related amounts not set off on the balance sheet | | | Net amounts |
| (in EUR million) | | | | Impact of Master Netting Agreements and similar agreements | Cash collateral received | Financial instruments received as collateral | |
| Derivatives | 21,059 | 0 | 21,059 | (12,001) | (1,976) | (56) | 7,024 |
| Reverse repurchase and similar agreements | 550 | 0 | 550 | 0 | 0 | (550) | 0 |
| **TOTAL FINANCIAL ASSETS IN SCOPE OF OFFSETTING DISCLOSURES** | **21,609** | **0** | **21,609** | **(12,001)** | **(1,976)** | **(606)** | **7,024** |

**b. Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements**

| (in EUR million) | 31/12/2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Gross amounts of financial liabilities | Gross amounts set off on the balance sheet | Net amounts of financial liabilities presented on the balance sheet | Related amounts not set off on the balance sheet | | | Net amounts |
| | | | | Impact of Master Netting Agreements and similar agreements | Cash collateral given | Financial instruments given as collateral | |
| Derivatives | 38,415 | 0 | 38,415 | (12,001) | (20,870) | (4,933) | 611 |
| Repurchase and similar agreements | 16,766 | 0 | 16,766 | 0 | (851) | (15,882) | 33 |
| TOTAL FINANCIAL LIABILITIES IN SCOPE OF OFFSETTING DISCLOSURES | 55,181 | 0 | 55,181 | (12,001) | (21,721) | (20,815) | 644 |

**c. Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements**

| (in EUR million) | 31/12/2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Gross amounts of financial assets | Gross amounts set off on the balance sheet | Net amounts of financial assets presented on the balance sheet | Related amounts not set off on the balance sheet | | | Net amounts |
| | | | | Impact of Master Netting Agreements and similar agreements | Cash collateral received | Financial instruments received as collateral | |
| Derivatives | 29,000 | 0 | 29,000 | (17,215) | (2,579) | 0 | 9,206 |
| Repurchase and similar agreements | 1,176 | 0 | 1,176 | 0 | 0 | (1,176) | 0 |
| TOTAL FINANCIAL ASSETS IN SCOPE OF OFFSETTING DISCLOSURES | 30,176 | 0 | 30,176 | (17,215) | (2,579) | (1,176) | 9,206 |

**d. Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements**

| (in EUR million) | 31/12/2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Gross amounts of financial liabilities | Gross amounts set off on the balance sheet | Net amounts of financial liabilities presented on the balance sheet | Related amounts not set off on the balance sheet | | | Net amounts |
| | | | | Impact of Master Netting Agreements and similar agreements | Cash collateral given | Financial instruments given as collateral | |
| Derivatives | 57,219 | 0 | 57,219 | (17,215) | (33,170) | (671) | 6,163 |
| Repurchase and similar agreements | 28,976 | 0 | 28,976 | 0 | (862) | (27,851) | 264 |
| TOTAL FINANCIAL LIABILITIES IN SCOPE OF OFFSETTING DISCLOSURES | 86,195 | 0 | 86,195 | (17,215) | (34,032) | (28,522) | 6,427 |

## 4.4. Related-party transactions

### a. Related-party transactions

Since 31 December 2012, as a result of the capital increase subscribed by the Belgian and French States, these shareholders have become the only two shareholders having a significant influence on Dexia.

Group transactions with these shareholders are described in 4.4 C. below. Pursuant to IAS 24 § 25, the detail of loans, borrowings or commitments with the State Shareholders are not subject to a separate disclosure.
As a result of the ongoing restructuring plan of the Group, Dexia does not have any transactions with related parties anymore.

### b. Compensation of key management personnel (*)

| (in EUR million) | 2013 | 2014 |
|---|---|---|
| Short-term benefits (1) | 4 | 3 |

*(*) Key management personnel are members of the Board of Directors and of the Management Board.*
*(1) Includes salaries and other benefits.*

*Details per person are reported in the Compensation report on page 57 of the annual report.*

### c. Transactions with the Belgian, French and Luxembourg States

### Guarantee mechanism in favour of Dexia's financing

**2011 Temporary Guarantee Agreement**
On 16 December 2011, the French, Belgian and Luxembourg States and Dexia and Dexia Crédit Local ("DCL") entered into a First Demand Guarantee Agreement pursuant to the Belgian royal decree of 18 October 2011 "granting a State guarantee for certain loans of Dexia and Dexia Crédit Local, the French amending finance law no. 2011-1416 of 2 November 2011 (the "French Enabling Law"), and the Luxembourg law concerning the state's budget of revenues and expenses for the 2012 financial year of 16 December 2011 (the "Luxembourg Enabling Law").

Pursuant to this Temporary Guarantee Agreement, the three States guarantee severally, but not jointly, the performance by Dexia and DCL of their repayment obligations resulting from certain financings provided by central banks, credit institutions and other institutional or professional investors, provided that these obligations arise from certain financings contracted or issued (with a maturity of up to three years) between 21 December 2011 and 31 May 2012. This initial deadline has been extended (i) until 30 September 2012 with the consent of the Parties and of the European Commission pursuant to an Amendment n°1 of 30 May 2012; and (ii) until 31 January 2013 pursuant to an Amendment n°3 of 28 September 2012.

The States guarantee the repayment obligations in the following proportion:
(i) 60.5% for the Belgian State;
(ii) 36.5% for the French State; and
(iii) 3.0% for the Luxembourg State.

The States' several but not joint guarantee pursuant to this Agreement may not exceed a maximum limit of EUR 45 billion in principal (increased up to EUR 55 billion pursuant to Amendment n°2 of 5 June 2012), it being understood that the amounts which are so capped include outstanding guaranteed obligations at any moment during the term of this Agreement but exclude outstanding guaranteed obligations pursuant to the 2008 Guarantee Agreement described below.

On 21 December 2011, the European Commission authorised this guarantee mechanism on a temporary basis for a period until 31 May 2012, until the Commission has adopted a final decision within the frame of a new State aid investigation procedure. This decision was adopted on 28 December 2012. The temporary guarantee mechanism was authorised until the entry into force of the 2013 Guarantee Agreement described below.

Furthermore, in 2011, the three States, Dexia and DCL have entered into a "Supplemental Agreement" supplementing the Temporary Guarantee Agreement on the obligation to collateralise the issue of guaranteed obligations, subject to exceptions, as well as on allocation priorities of the proceeds of such guaranteed obligations. This Supplemental Agreement was terminated on 24 January 2013 pursuant to a Guarantees Issuance Agreement, which provides the release of first ranking security interests granted by Dexia and DCL in favour of the States. Second ranking security interests granted by DCL on assets provided as security for repayment obligations under ELA (Emergency Liquidity Assistance) lending granted by Banque de France to DCL are maintained.

Early 2012, the three States, Dexia and DCL have entered into a "Supplemental Agreement on Alert Mechanics" with a view to, among other things, supplement the Temporary Guarantee Agreement on information to be provided to the States on the liquidity position of Dexia. This supplemental agreement provides, among other things, the weekly delivery of a consolidated financing plan including Dexia, DCL and DCL subsidiaries, covering a month period. Early 2012, the three States, Dexia and DCL have finally entered into an "Operational Memorandum" and a "Reporting Protocol" supplementing the Temporary Guarantee Agreement. These agreements remain applicable in the framework of the 2013 Guarantee Agreement described below.

Pursuant to the Temporary Guarantee, the following guarantee fee was due to the States:
(i) an upfront commission equal to 0.50% of the EUR 45 billion limit, i.e. EUR 225,000,000 (increased by EUR 50 million as a supplemental fee for the increase of the limit up to EUR 55 billion pursuant to Amendment n°2 of 5 June 2012);
(ii) a monthly fee, calculated on the amount of guaranteed funding outstanding comprising, depending on the maturity of the guaranteed obligation,
– a fixed or variable amount,
– increased by a supplement depending on Dexia and/or DCL's rating in relation to funding having an initial maturity of less than 12 months, and
– decreased by a deduction in case of collateralisation of the States guarantee commitment.

**2013 guarantee agreement**

On 24 January 2013, the French, Belgian and Luxembourg States and Dexia and Dexia Crédit Local ("DCL") entered into a Guarantees Issuance Agreement, and granted an Independent Guarantee pursuant to such Guarantees Issuance Agreement in favour of Dexia Crédit Local (main issuer and main operating entity of the Group) pursuant to the Belgian royal decree of 19 December 2012 amending the royal decree of 18 October 2011 granting a State guarantee for certain loans of Dexia and Dexia Crédit Local SA, the French Enabling Law, as amended by the amending finance law n°2012-1510 of 29 December 2012 and the Luxembourg Enabling Law.

Pursuant to this 2013 Guarantee, the three States guarantee severally, but not jointly, the performance by DCL of their repayment obligations resulting from certain financings provided by qualified, institutional or professional investors (within the meaning of the Guarantee), provided that these obligations arise from certain financings contracted or issued in the form of securities and financial instruments, deposits and borrowings (with a maximum maturity of ten years) between 24 January 2013 and 31 December 2021.
This Guarantee is effective immediately. It replaces the 2011 Temporary Guarantee which is terminated without retroactive effect and without prejudice to any rights arising pursuant to guaranteed obligations entered into or issued prior to the effectiveness of the Guarantee.
The States' several but not joint guarantee pursuant to this Agreement may not exceed a maximum aggregate limit of EUR 85 billion in principal, it being understood that the amounts which are so capped include outstanding guaranteed obligations pursuant to the Guarantee, the 2011 Temporary Guarantee, or any other guarantee granted pursuant to the Guarantees Issuance Agreement but exclude outstanding guaranteed obligations pursuant to the 2008 Guarantee Agreement described below.

The States guarantee the repayment obligations in the following proportion:
(i) 51.41% for the Belgian State (corresponding to a maximum amount of EUR 43.6985 billion);
(ii) 45.59% for the French State (corresponding to a maximum amount of EUR 38.7515 billion); and
(iii) 3.0% for the Luxembourg State (corresponding to a maximum amount of EUR 2.55 billion).

Pursuant to the Guarantee Issuance Agreement, the following guarantee fee is due to the States:
(i) an upfront commission equal to 0.50% of the EUR 85 billion limit, less the upfront commission already paid in connection with the 2011 Temporary Guarantee i.e. a balance of EUR 150 million.
(ii) a monthly fee, calculated at a rate per annum of 0.05% on the amount outstanding under the guaranteed obligations, both on the preexisting guaranteed amounts outstanding under the 2011 Temporary Guarantee and the new guaranteed amounts outstanding under guarantees issued in accordance with the Guarantees Issuance Agreement (it being understood that such monthly fee shall, with respect to the portion of the outstanding amount of the guaranteed obligations that would be held by BDF Gestion SA or by the Banque de France, the National Bank of Belgium, be calculated in accordance with the 2011 Temporary Guarantee Agreement (as long as the ECB accepts the all-in fee principle).

As is the case for the 2011 temporary guarantee, the outstanding amount of the guaranteed debt will be disclosed on a daily basis on the website of the National Bank of Belgium (http://www.nbb.be/DOC/DQ/warandia/index.htm).

As at 31 December 2014, the total outstanding amount of obligations guaranteed by the States pursuant to the 2011 Temporary Guarantee Agreement and the 2013 Guarantee Agreement was respectively EUR 311 million and EUR 72.7 billion. In 2014, Dexia paid a total monthly remuneration of EUR 38 million to the States for these guarantees.

**2008 Guarantee Agreement**

On 9 December 2008, the French, Belgian and Luxembourg States and Dexia entered into a First Demand Guarantee Agreement implementing the principles set forth in the Protocol of 9 October 2008 between the three States and Dexia. Pursuant to this guarantee agreement, the three States guaranteed severally, but not jointly, the performance by Dexia, Dexia Banque Internationale à Luxembourg, Dexia Bank Belgium and Dexia Crédit Local (including certain of their branches and issuance vehicles) of their repayment obligations resulting from certain financings provided by central banks, credit institutions and other institutional or professional investors, provided that these obligations arise from certain financings contracted or issued between 9 October 2008 and 31 October 2009 and maturing at the latest on 31 October 2011.

The States guaranteed the repayment obligations in the following proportion:
(i) 60.5% for the Belgian State;
(ii) 36.5% for the French State; and
(iii) 3.0% for the Luxembourg State.

To supplement the Guarantee Agreement on operational and procedural aspects, the three States and Dexia had entered into an Operational Memorandum. This memorandum provided, among other things, for a monitoring process of the guaranteed financings on a daily basis, including a daily publication of the aggregate guaranteed amount and, with respect to guaranteed bond issues of Dexia, a system of eligibility certificates whereby the States issue, on Dexia's request, certificates confirming for each bond issue that it is covered by the Guarantee Agreement.

On 19 November 2008, the European Commission authorised this guarantee mechanism for a period of 6 months as from 3 October 2008, with an automatic extension until the Commission's definitive decision, on condition that a restructuring plan be filed with the Commission. In March 2009, the three States confirmed the extension of the guarantee in accordance with the decision of the European Commission of 13 March 2009.

By an Addendum to the above-mentioned Guarantee Agreement of 9 December 2008, dated 14 October 2009, the Belgian, French and Luxembourg States and Dexia agreed to renew the guarantee scheme for a period of one year, covering financings contracted or issued at the latest on 31 October 2010. The parties also wished to effect certain changes to the guarantee in order to limit the States' intervention to a strict minimum and to allow an orderly exit out of the guarantee within a credible time-horizon. The changes included:
(i) the decrease of the maximum of the total amount of guaranteed financings from EUR 150 billion to EUR 100 billion, with a commitment by Dexia to undertake its best efforts to limit this amount to EUR 80 billion;
(ii) the extension to 4 years of the maximum duration of the new financings contracted or issued; and
(iii) the waiver by Dexia of the benefit of the guarantee, as from 16 October 2009, for all new contracts with a maturity of less than one month and all contracts with an indefinite term.

The Guarantee Agreements provided for the following remuneration to be paid by Dexia to the States:
(i) for financings with a maturity of less than 12 months: 50 bps on an annual basis calculated on the average amount guaranteed financings outstanding; and
(ii) for financings with a maturity of 12 months or more: 50 bps on an annual basis, increased by the lowest of (i) the median of the Dexia CDS 5 years spread calculated between 1 January 2007 and 31 August 2008 or (ii) the median of the 5 years CDS spreads of all credit institutions with a long-term credit rating equivalent to that of Dexia, calculated on the average amount guaranteed financings outstanding.

The renewal and modifications as provided for in the Addendum of 14 October 2009 had been duly authorised by an interim decision of the European Commission for a period of 4 months as from 30 October 2009 (i.e. until 28 February 2010) or until the final decision – if such decision was adopted prior to 28 February 2010 – of the European Commission in the context of the State aid procedure opened on 13 March 2009.

By separate agreement dated 17 March 2010, the Belgian, French and Luxembourg States and Dexia amended and supplemented the above-mentioned Addendum to the Guarantee Agreement of 14 October 2009 to reflect the terms of the final decision of the European Commission in the context of the State aid procedure of 26 February 2010. The changes included:
(i) advancing the latest issue date for guaranteed financings to 31 May 2010 (for financings with a maturity of less than 12 months) resp. 30 June 2010 (for financings with a maturity equal to or of more than 12 months);
(ii) advancing the expiry date of the guarantee on deposits (and equivalents) to 1 March 2010;
(iii) a gradual increase of the remuneration payable by Dexia, pro rata temporis, if the outstanding amount of guaranteed obligations exceeds certain thresholds (by 50 bps on the portion of guaranteed obligations between EUR 60 billion and EUR 70 billion, 65 bps on the portion of guaranteed obligations between EUR 70 billion and EUR 80 billion, and 80 bps on the portion of guaranteed obligations above EUR 80 billion).

All outstanding instruments issued pursuant to the 2008 Guarantee Agreement, as amended, before 30 June 2010 continued to benefit from such guarantee in accordance with their terms and conditions.

As of 28 May 2014, guaranteed obligations pursuant to the 2008 Guarantee Agreement, as amended by the three States, were entirely repaid, such that there is no outstanding guarantee obligation pursuant to this guarantee as at 31 December 2014.

In 2014, Dexia paid a total monthly remuneration of EUR 16 million to the States for this guarantee.

All the above-mentioned agreements, as well as the total outstanding amount of guaranteed repayment obligations and the list of securities for which the States have issued eligibility certificates are available on the website www.dexia.com.

### Guarantee for the financial products portfolio

Dexia entered into an agreement for the sale of the insurance activities of Financial Security Assurance (FSA) to Assured Guaranty Ltd (Assured) on 14 November 2008. The sale was completed on 1 July 2009. The Financial Products activity of FSA, managed by FSA Asset Management (FSAM), was carved out of the transaction and remains under Dexia's ownership.

In that context, the Belgian and French States agreed to provide a guarantee on the Financial Products assets portfolio. The terms of this guarantee are set out in two agreements, the First Demand Guarantee Agreement relating to the "financial products" portfolio of FSA Asset Management LLC and the Guarantee Reimbursement Agreement, entered into by the Belgian and French States and Dexia. The main relevant terms of these agreements have been described in the 2011 Annual Report page 165.

Pursuant to these agreements, the Belgian and French States each agreed to guarantee, severally and not jointly, the obligations of Dexia SA pursuant to a put agreement which gave FSAM the right to "put" to Dexia and/or DCL certain assets (the Put Portfolio Assets) included in the FSAM portfolio as at 30 September 2008 upon the occurrence of certain trigger events up to an aggregate amount equal to USD 16.98 billion and up to 62.3711% for the Belgian State and 37.6289% for the French State.

With the consent of the Belgian and French States, FSAM sold to DCL during 2011 all the remaining Put Portfolio Assets. DCL subsequently sold substantially all of the Put Portfolio Assets to third parties. As at 31 December 2011, there were no longer any Put Portfolio Assets held by FSAM that can be put to Dexia SA and DCL and (if those Dexia entities did not pay the required amount to FSAM) require the States to make a payment to FSAM. Dexia also no longer owes the States any guarantee fee with respect thereto. The guarantee by the Belgian and French States on the Put Portfolio Assets, however, technically remains outstanding. The States are thus still entitled to recover from Dexia any amounts paid pursuant to their guarantee. This recourse of the States can be exercised either in cash or in the form of instruments representing Tier 1 capital of Dexia (ordinary shares or profit shares). The terms of the profit shares were approved by the Extraordinary Shareholders' Meeting of Dexia on 24 June 2009 and are set out in Article 4bis of the Articles of Association of Dexia.

Dexia issued subscription rights (warrants) to each of the States for a period of 5 years, to allow the States to be compensated, through the issuance of new shares, following the contribution in kind to Dexia of their right of reimbursement. The warrants issued to the Belgian and French States at the general meeting of shareholders of 11 May 2011, remain outstanding for the remainder of their 5-year term.

This guarantee was approved by the European Commission on 13 March 2009.

For a more detailed description of the guarantee for the Financial Products portfolio, see the Special Board Report of 12 May 2009, as last updated by the Special Board Report of 18 March 2011 relating to the re-issue of the warrants, both available on the website of Dexia (www.dexia.com).

## 4.5. Acquisitions and disposals of consolidated companies

### a. Acquisitions

There were no significant acquisitions in 2013 and 2014.

### b. Disposals

#### 2013

On 31 January 2013, Dexia finalised the sale of the Société de Financement Local (SFIL), a proprietary holding of the Dexia Municipal Agency (renamed Caisse Française de Financement Local) to the French State as the majority shareholder, the Caisse des Dépôts and the Banque Postale.
On 28 March 2013, Dexia Kommunalkredit Bank Polska, the Polish subsidiary of Dexia Kommunalkredit Bank, was sold to Getin Noble Bank.
On 2 April 2013, the sale of Dexia Bail to Sofimar was finalised.
On 6 September 2013, Dexia finalised the sale of its participation in Public Location Longue Durée (Public LLD) to Arval Service Lease.
On 30 September 2013, Dexia finalised the sale of Sofaxis to the Société Hospitalière d'Assurances Mutuelles (SHAM), the MGEN Group and the Mutuelle Nationale Territoriale (MNT).
On 4 October 2013, the Group sold its 50% holding in Domiserve to Axa Assistance Participations.
On 6 December 2013, the sale of ADTS to IBM was finalised.

### 2014

On 3 February 2014, Dexia sold all of its shares in Dexia Asset Management (DAM) to New York Life Investments.
On 19 February 2014, Dexia sold its holding in Popular Banca Privada to Banco Popular Espanol.

With these two sales, Dexia reached the target scope set out in the Group's orderly resolution plan.

| **The assets and liabilities disposed of were as follows:** | **As at 31 December 2013** | | | | | | | **As at 31 December 2014** | |
|---|---|---|---|---|---|---|---|---|---|
| (in EUR million) | **Dexia Municipal Agency** | **Dexia Kommun-alkredit Bank Polska** | **Sofaxis** | **Domi-serve** | **Public Loca-tion Longue Durée** | **Dexia Bail** | **ADTS** | **Dexia Asset Management** | **Popular Banca Privada** |
| Cash and cash equivalents | 2,562 | 14 | 4 | 1 | | 14 | 47 | 47 | |
| Financial assets at fair value through profit or loss | 2,301 | | | | | | | | |
| Hedging derivatives | 9,192 | | | | | | | | |
| Financial assets available for sale | 1,124 | | 230 | 1 | | | | 221 | |
| Interbank loans and advances | 939 | | | 9 | | | | | |
| Customer loans and advances | 67,681 | 106 | | | | 99 | | | |
| Fair value revaluation of portfolio hedges | 1,444 | | | | | | | | |
| Financial assets held to maturity | | 10 | | | | | | | |
| Deferred tax assets | 115 | | 1 | 1 | | | 8 | 25 | |
| Accruals and other assets | (1,271) | (7) | 49 | 3 | 19 | | 9 | 78 | |
| Investments in associates | | | | | | | | | 32 |
| Intangible assets and goodwill | | | 69 | | 150 | | 14 | 70 | |
| Intercompany accounts : net position | (5,064) | (18) | 11 | (2) | (135) | (92) | | (1) | |
| Financial liabilities at fair value through profit and loss | (970) | | | | | | | | |
| Hedging derivatives | (9,183) | | | | | | | | |
| Interbank borrowings and deposits | | (91) | (10) | | (9) | | | | |
| Dettes envers la clientèle | | | | (1) | | | (14) | | |
| Debt securities | (62,477) | | | | | | | | |
| Fair value revaluation of portfolio hedges | (2,873) | | | | | | | | |
| Other liabilities | (3,519) | | (281) | (13) | (25) | (9) | (53) | (109) | |
| Provisions | (9) | | (3) | | | | (26) | (14) | |
| **NET ASSETS** | **(9)** | **13** | **70** | **1** | **1** | **12** | **(15)** | **317** | **32** |
| Sale price [2] | 0 | 13 | 136 | 2 | 0 | 0 | (8) | 380 | 49 |
| Less: cost of the transaction [1] | (9) | | (3) | | | | (1) | (1) | |
| Less: cash and cash equivalents in the subsidiary sold | (2,562) | (14) | (4) | (1) | | (14) | (47) | (47) | |
| Net cash inflow on sale | (2,570) | (1) | 129 | 1 | 0 | (14) | (56) | 332 | 49 |

*(1) Cost of transaction on Dexia Municipal Agency: only part of the cost paid in 2013.*
*(2) The sale price of ADTS is reduced by a payment of EUR 9 million related to pension obligations.*

## 4.6. Information on disposals groups held for sale and discontinued operations

### a. Assets and liabilities included in disposal groups held for sale

**2014**

The Group reached the target scope as set out in the Group's orderly resolution plan in the first quarter 2014.

There is no disposal group held for sale as at 31 December 2014

**2013**

In the context of the reorganisation of the Group announced in October 2011, Dexia decided to sell several subsidiaries.

According to IFRS 5, a non-current asset or a group of assets and liabilities from a disposal group can be recorded as held for sale only if the following conditions are met:

- the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups);
- and its sale must be highly probable.

Non-current assets and assets of the disposal groups are reported in one single line in the assets, liabilities of the disposal groups are reported in one single line in the liabilities, and the Other Comprehensive Income (OCI) relating to those disposal groups are reported in one single line in the OCI.

Amounts reported in the table below are the contribution of the entities to the consolidation of Dexia, after elimination of intercompany balances. Those net balance of intercompany accounts (assets – liabilities) are reported in the line "Intercompany accounts – net position". It must be noted that when the entities will be sold, the impact on the Dexia total balance sheet will depend on intercompany balances existing at that date. If Dexia has still receivables, those receivables will no longer be eliminated and the total Dexia balance sheet will be increased by this amount. According to IFRS 5, opening balance sheet must not be adjusted.

In December 2012, Dexia announced the signature of a share purchase agreement with GCS Capital for the sale of Dexia Asset Management for an amount of EUR 380 million.

On 30 July 2013, the discussions with GCS Capital were abandoned, as GCS Capital had not been able to meet its contractual payment obligations.

On 3 February 2014, Dexia finalised the sale of 100% of its participation in Dexia Asset Management to New York Life Investments for a firm price of EUR 380 million.

| | 2013 |
|---|---|
| (in EUR million) | Dexia Asset Management |
| Cash and cash equivalents | 47 |
| Financial assets available for sale | 221 |
| Deferred tax assets | 25 |
| Other assets | 78 |
| Intangible assets and goodwill | 70 |
| Intercompany accounts: net position | (1) |
| Other liabilities | (109) |
| Provisions | (14) |
| **NET ASSETS** | **317** |

### b. Income Statement

| 31/12/2013<br>(in EUR million) | BIL | RBC-DIS | Dexia Asset Manage-ment | Dexia Municipal Agency | DenizBank | ADTS | Popular Banca Privada | Total |
|---|---|---|---|---|---|---|---|---|
| **Net banking income** | | | **182** | | | **140** | | **322** |
| Operating expenses | | | (135) | | | (145) | | (280) |
| Cost of risk and other | | | | | | | 3 | 3 |
| **Income before tax** | | | **46** | | | **(5)** | **3** | **45** |
| Income tax | | | (11) | | | 1 | | (11) |
| **Net income** | | | **35** | | | **(3)** | **3** | **36** |
| Result on disposal | (8) | (1) | | (143) | (8) | 6 | | (154) |
| **Income from discontinued operations, net of tax** | **(8)** | **(1)** | **35** | **(143)** | **(8)** | **3** | **3** | **(119)** |
| Minority interests | | | | | | | | 7 |
| Group share | | | | | | | | (126) |
| Earning per share | | | | | | | | |
| - basic | | | | | | | | (0,06) |
| - diluted | | | | | | | | (0,06) |

| 31/12/2014<br>(in EUR million) | BIL | Dexia Asset Management | Popular Banca Privada | Total |
|---|---|---|---|---|
| Result on disposal | 8 | 58 | 21 | 87 |
| **Income from discontinued operations, net of tax** | **8** | **58** | **21** | **87** |
| Minority interests | | | | 87 |
| Earning per share | | | | |
| - basic | | | | 0,04 |
| - diluted | | | | 0,04 |

### c. Net cash flow

| (in EUR million) | 31/12/2013 | 31/12/2014 |
|---|---|---|
| Net cash inflows from operating activities | 62 | |
| Net cash inflows from investing activities | (2,624) | (47) |
| Net cash inflows from financing activities | (10) | |
| **TOTAL** | **(2,572)** | **(47)** |

## 4.7. Share-based payments

| Dexia stock option plans (number of options) | 2013 | 2014 |
|---|---|---|
| Outstanding at the beginning of the period | 60,386,176 | 52,320,686 |
| Expired during the period | (8,065,490) | 10,232,603 |
| **Outstanding at the end of the period** | **52,320,686** | **42,088,083** |
| **Exercisable at the end of the period** | **52,320,686** | **42,088,083** |

| 2013 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|
| **Range of exercise prices (EUR)** | **Number of outstanding options** | **Weighted-average exercise price (EUR)** | **Weighted-average remaining contractual life (years)** | **Range of exercise prices (EUR)** | **Number of outstanding options** | **Weighted-average exercise price (EUR)** | **Weighted-average remaining contractual life (years)** |
| 9.12 - 10.27 | 7,553,684 | 9.12 | 4.50 | 9.12 - 10.27 | 7,553,684 | 9.12 | 3.50 |
| 10.74 - 12.35 | 13,764,227 | 12.05 | 0.57 | 10.74 - 12.35 | 3,531,624 | 12.05 | 3.50 |
| 16.30 - 16.46 | 9,991,281 | 16.30 | 1.49 | 16.30 - 16.46 | 9,991,281 | 16.3 | 0.49 |
| 16.47 - 19.21 | 10,128,349 | 16.87 | 2.51 | 16.47 - 19.21 | 10,128,349 | 16.87 | 1.73 |
| 19.21 - 21.02 | 10,883,145 | 21.02 | 3.50 | 19.21 - 21.02 | 10,883,145 | 21.02 | 2.50 |
| **TOTAL** | **52,320,686** | | | **TOTAL** | **42,088,083** | | |

## 4.8. Capital stock

| | 2013 | | 2014 | |
|---|---|---|---|---|
| | **Class A** | **Class B (1)** | **Class A** | **Class B (1)** |
| Number of shares authorised | 1,948,984,474 | 28,947,368,421 | 1,948,984,474 | 28,947,368,421 |
| Number of shares issued and fully paid | 1,948,984,474 | 28,947,368,421 | 1,948,984,474 | 28,947,368,421 |
| Number of shares issued and not fully paid | | | | |
| **Value per share** | **no nominal value** | **no nominal value** | **no nominal value** | **no nominal value** |
| Outstanding as at 1 Jan. | 30,896,352,895 | | 30,896,352,895 | |
| Outstanding as at 31 Dec. | 30,896,352,895 | | 30,896,352,895 | |
| Rights, preferences and restrictions, including restrictions on the distribution of dividends and the repayment of capital | | 28,947,368,421 | | 28,947,368,421 |
| Number of treasury shares | 324,633 | | 324,633 | |
| Number of shares reserved for issue under stock options and contracts for the sale of shares | 324,633 | | 324,633 | |

*(1) see below the description of Class B Shares*

See note 4.4.C. Transactions with the Belgian, French and Luxembourg States
See note 4.7. Share-based payments

### Class B shares

The preferential rights of class B shares can be summarised as follows:

• Voting rights: The new preference shares have the same voting rights as existing shares.
• Dividends: All dividend distributions made by Dexia will be allocated in priority to the holders of preference shares, up to an amount per preference share corresponding to 8% per annum of the subscription price paid for such share. Any potential surplus will then be allocated to the holders of ordinary shares up to an amount per share corresponding to the amount distributed to the preference shares and any remainder will then be distributed on a pari passu basis to the holders of both classes of shares.
• Liquidation Supplement: Any potential shortfall, in respect of the preference shares, between the amount corresponding to the 8% of the subscription price paid for such share and the effective amount of any yearly distribution, will not be carried forward to future annual distributions, but this difference and any other differences in subsequent years will constitute a liquidation supplement (the "Liquidation Supplement") payable in priority, in accordance with the terms set forth below, to the holders of preference shares.
• Liquidation distributions: Upon a subsequent liquidation of Dexia, any distributions in connection therewith will be allocated in priority to the holders of preference shares up to an amount per preference share equal to the subscription price paid for such share, increased by any Liquidation Supplement and reduced by any amounts already repaid in connection with a share capital reduction. Any remainder would then be allocated to the holders of ordinary shares up to an amount representing their right to a capital reimbursement in respect of such shares and then up to an amount corresponding to the Liquidation Supplement and, any remaining amount will then be allocated on a pari passu basis to holders of both classes of shares.
• Share capital reductions in kind, share buy-backs: The product of future share capital reduction operation by Dexia carried out by repayments to shareholders, will be booked in priority against the part of the share capital represented by the preference shares and will be allocated in priority to the holders of preference shares up to an amount equal to the subscription price paid for such share, reduced by any amounts already repaid pursuant to any share capital reductions.
Subject to the occurrence of the proposed share capital increase, future share buy-backs by the Company will be carried out in priority on preference shares.
Subject to the occurrence of the proposed share capital increase, no share capital reduction operation or share buy-back transactions may be carried out in respect of ordinary shares without the prior approval of at least 75% of votes attached to the preference shares.
• Share capital reductions in order to set-off losses or create reserves: Future share capital reduction operations of the Company with a view to setting of losses or to create reserves will be booked in priority against the ordinary shares, meaning that any right to the reimbursement of share capital in respect of each ordinary share will be reduced by the same amount. However, such share capital reduction transactions shall be carried out in such a way as to ensure that the total amount of the right to the repayment of share capital of all the shares of a given class shall remain strictly positive. For the rest, the rights attached to the shares shall not be affected.

A full description of the terms and conditions of the preference shares issued at the occasion of the December 2012 capital increase reserved for the Belgian and French State is included in article 4 of the articles of association of Dexia (available on http://www.dexia.com/EN/shareholder_investor/regulated_information).

## 4.9. Exchange rates

The primary exchange rates are presented in the following schedule.

| | | 31/12/2013 | | 31/12/2014 | |
|---|---|---|---|---|---|
| | | Closing rate [1] | Average rate [2] | Closing rate [1] | Average rate [2] |
| Australian dollar | AUD | 1.5412 | 1.3945 | 1.4838 | 1,4719 |
| Canadian dollar | CAD | 1.4651 | 1.3767 | 1.4052 | 1.4629 |
| Swiss Franc | CHF | 1.2273 | 1.2292 | 1.2028 | 1.2126 |
| Czech Koruna | CZK | 27.3620 | 26.0319 | 27.7120 | 27.5591 |
| Danish Krone | DKK | 7.4604 | 7.4578 | 7.4462 | 7.4547 |
| British Pound Sterling | GBP | 0.8333 | 0.8502 | 0.7778 | 0.8025 |
| Hong-Kong dollar | HKD | 10.6906 | 10.3198 | 9.4035 | 10.2480 |
| Hungarian forint | HUF | 297.1250 | 297.9588 | 316.5500 | 310.0546 |
| Shekel | ILS | 4.7746 | 4.7872 | 4.7095 | 4.7388 |
| Japenese Yen | JPY | 144.7050 | 130.2854 | 145.0350 | 140.5092 |
| Won | KRW | 1455.5800 | 1456.1658 | 1323.4450 | 1392.1204 |
| Mexican Peso | MXN | 18.0210 | 17.1175 | 17.8531 | 17.6480 |
| Norwegian Krone | NOK | 8.3790 | 7.8701 | 9.0510 | 8.3949 |
| New Zealand dollar | NZD | 1.6729 | 1.6299 | 1.5521 | 1.6002 |
| Swedish Krona | SEK | 8.8824 | 8.6681 | 9.4314 | 9.1145 |
| Singapore dollar | SGD | 1.7413 | 1.6677 | 1.6057 | 1.6775 |
| New Turkish Lira | TRY | 2.9644 | 2.5671 | 2.8287 | 2.8934 |
| US Dollar | USD | 1.3788 | 1.3304 | 1.2126 | 1,3213 |

*(1) Rate observed on Reuters at 4:45 pm on the last business day of the month of December.*
*(2) Average of the closing rates used by the Dexia Group.*

## 4.10. Capital Management

The information regarding capital management is presented in the Management report pages 34 to 38.

## 4.11. Minority interests - Core equity

| | |
|---|---|
| **AS AT 1 JANUARY 2013** | 473 |
| - Dividends | (5) |
| - Net income for the period | 2 |
| **AS AT 31 DECEMBER 2013** | 470 |
| **AS AT 1 JANUARY 2014** | 470 |
| - Net income for the period | (7) |
| - Variation of scope of consolidation | (8) |
| **AS AT 31 DECEMBER 2014 [1]** | **455** |

*(1) This amount includes EUR 56 million of undated subordinated non-cumulative Notes issued by Dexia Crédit Local, EUR 339 million of minority interest in Dexia Crediop and EUR 60 million of minority interest in Dexia Israël.*

# 5. Notes on the income statement

*(some amounts may not add up due to roundings off)*



## 5.1. Interest income - Interest expense (Items I and II - Income statement)

| (in EUR million) | 2013 | 2014 |
|---|---|---|
| **Interest income** | **14,157** | **11,463** |
| **a) Interest income on assets not measured at fair value** | **5,230** | **4,746** |
| Cash and central banks | 7 | 22 |
| Interbank loans and advances | 286 | 172 |
| Customer loans and advances | 3,825 | 3,556 |
| Financial assets available for sale | 989 | 910 |
| Financial assets held to maturity | 20 | 12 |
| Impaired assets | 4 | 4 |
| Other | 98 | 71 |
| **b) Interest income on assets measured at fair value** | **8,926** | **6,717** |
| Loans and securities held for trading | 41 | 34 |
| Loans and securities designated at fair value | 1 | 1 |
| Derivatives held for trading | 5,469 | 4,378 |
| Hedging derivatives | 3,415 | 2,304 |
| **Interest expense** | **(14,248)** | **(11,283)** |
| **a) Interest expense on liabilities not measured at fair value** | **(3,236)** | **(2,468)** |
| Interbank borrowings and deposits | (756) | (518) |
| Customer borrowings and deposits | (163) | (96) |
| Debt securities | (2,126) | (1,775) |
| Subordinated debt | (8) | (6) |
| Amounts covered by sovereign guarantees (1) | (164) | (65) |
| Other | (18) | (8) |
| **b) Interest expense on liabilities measured at fair value** | **(11,012)** | **(8,815)** |
| Liabilities held for trading | (1) | 0 |
| Liabilities designated at fair value | (131) | (106) |
| Derivatives held for trading | (5,658) | (4,599) |
| Hedging derivatives | (5,222) | (4,110) |
| **Net interest income** | **(92)** | **180** |

*(1) see note 4.4.c. Related-party transactions - Transactions with the Belgian, French and Luxembourg States*

## 5.2. Commissions (Items III and IV - Income statement)

| | 2013 | | | 2014 | | |
|---|---|---|---|---|---|---|
| (in EUR million) | Income | Expense | Net | Income | Expense | Net |
| Lending activity | 12 | (4) | 8 | 10 | (4) | 6 |
| Insurance activity and broking | 24 | (1) | 23 | 0 | 0 | 0 |
| Purchase and sale of securities | 0 | (4) | (4) | 0 | (3) | (3) |
| Payment services | 0 | (5) | (5) | 0 | (4) | (4) |
| Commissions paid to business providers | 0 | (1) | (1) | 0 | (1) | (1) |
| Services on securities other than custodial services | 0 | (2) | (2) | 0 | (2) | (2) |
| Custodial services | 4 | (1) | 3 | 4 | (1) | 4 |
| Issuance and placement of securities | 3 | 0 | 2 | 2 | 0 | 2 |
| Intermediation on repo and reverse repo | 0 | (18) | (18) | 0 | (12) | (12) |
| Other | 14 | (7) | 7 | 4 | (4) | 0 |
| **TOTAL** | **57** | **(44)** | **13** | **21** | **(31)** | **(10)** |

Fees and commissions related to financial assets and financial liabilities which are not at fair value through profit or loss are below materiality

## 5.3. Net gains (losses) on financial instruments at fair value through profit or loss (Item V - Income statement

| (in EUR million) | 2013 | 2014 |
|---|---|---|
| Net trading income | (91) | (65) |
| Net result of hedge accounting | (251) | (292) |
| Net result of financial instruments designated at fair value through profit or loss (1) | 23 | (7) |
| Change in own credit risk (2) | (77) | 7 |
| Change in fair value of derivatives attributable to counterparty risk (credit value adjustment) | (29) | (64) |
| Change in fair value of derivatives attributable to own credit risk (debit value adjustment) | 106 | 61 |
| Net result of foreign exchange transactions | (21) | 17 |
| **TOTAL** | **(340)** | **(343)** |
| (1) among which trading derivatives included in a fair value option strategy | (435) | 151 |

*(2) see also note 7.2.H. Credit risk on financial liabilities designated at fair value through profit or loss*

*All interests received and paid on assets, liabilities and derivatives are recorded in the net interest income. Thus, the net gains (losses) on trading transactions and net gains (losses) on hedging transactions only include the change in the clean value of derivatives, the revaluation of assets and liabilities qualified as hedges and the revaluation of the portfolio held for trading.*

*The change in net result from hedge accounting is mainly due to the use, since the closing as at 30 June 2013, of a discount curve based on the overnight rate (OIS) to calculate the market value of collateralised derivatives.*

*In the absence of market standard, Dexia did not book any Funding Valuation Adjustment (FVA) as at 31 December 2014. Dexia will continue to improve its models in the next periods following market practice evolution and especially the convergence on valuation adjustments such as Funding Valuation Adjustment (FVA).*

### Analysis of net result of hedge accounting

| (in EUR million) | 2013 | 2014 |
|---|---|---|
| **Fair value hedges** | **(249)** | **(289)** |
| Fair value changes of the hedged item attributable to the hedged risk | (5,664) | 8,727 |
| Fair value changes of the hedging derivatives | 5,415 | (9,016) |
| **Cash flow hedges** | **(1)** | **(1)** |
| Fair value changes of the hedging derivatives – ineffective portion | 0 | (1) |
| Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur) | (1) | 0 |
| **Portfolio hedge** | **(1)** | **(2)** |
| Fair value changes of the hedged item | (389) | 884 |
| Fair value changes of the hedging derivatives | 388 | (886) |
| **TOTAL** | **(251)** | **(292)** |
| Discontinuation of cash flow hedge accounting (cash flows still expected to occur) - amounts recorded in interest margin | 1 | 0 |

## 5.4. Net gains (losses) on financial assets available for sale (Item VI - Income statement)

| (in EUR million) | 2013 | 2014 |
|---|---|---|
| Dividends on securities available for sale | 2 | 2 |
| Net gain (loss) on disposals of financial assets available for sale (*) | 20 | 27 |
| Impairment of variable-income securities available for sale | (5) | (8) |
| Net gain (loss) on disposals of loans and advances | 37 | (10) |
| Net gain (loss) on redemption of debt securities | (7) | 31 |
| **TOTAL** | **47** | **43** |

*(1) Except for gains and losses on impaired fixed-income securities, which are included in cost of risk*

## 5.5. Other income (Item VII - Income statement)

| (in EUR million) | 2013 | 2014 |
|---|---|---|
| Rental income | 24 | 4 |
| Other banking income | 0 | 1 |
| Litigations | 5 | 35 |
| Other income | 9 | 1 |
| **TOTAL** | **38** | **41** |

## 5.6. Other expenses (Item VIII - Income statement)

| (in EUR million) | 2013 | 2014 |
|---|---|---|
| Depreciation and amortisation on office furniture and equipment given in operational lease | (15) | 0 |
| Provisions for litigations | (112) | (143) |
| Operating taxes | (3) | (1) |
| Amortisation on investment property | (1) | 0 |
| Other expenses | (10) | (14) |
| **TOTAL** | **(141)** | **(158)** |

## 5.7. Operating expenses (Item X - Income statement)

| (in EUR million) | 2013 | 2014 |
|---|---|---|
| Payroll costs | (179) | (167) |
| General and administrative expenses | (190) | (187) |
| **TOTAL** | **(368)** | **(355)** |

### a. Payroll Costs

| (in EUR million) | 2013 | 2014 |
|---|---|---|
| Compensation and salary expense | (167) | (129) |
| Social security and insurance expense | (42) | (35) |
| Employee benefits | (10) | (13) |
| Restructuring costs | 40 | 21 |
| Other | 0 | (11) |
| **TOTAL** | **(179)** | **(167)** |

### Employee information

| | 2013 | 2014 |
|---|---|---|
| *(Average full time equivalent)* | Fully consolidated | Fully consolidated |
| Executive staff | 42 | 40 |
| Administrative staff | 1,354 | 1,246 |
| Non-administrative and other personnel | 9 | 4 |
| **TOTAL** | **1,405** | **1,290** |

| | 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(Average full time equivalent)* | Belgium | France | Italy | Spain | Other Europe | USA | Other non Europe | Total |
| Executive staff | 18 | 7 | 2 | 1 | 5 | 5 | 4 | 42 |
| Administrative staff | 62 | 775 | 183 | 33 | 127 | 136 | 38 | 1,354 |
| Non-administrative and other personnel | 0 | 0 | 0 | 0 | 0 | 4 | 5 | 9 |
| **TOTAL** | **80** | **782** | **185** | **34** | **132** | **145** | **47** | **1,405** |

| | 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(Average full time equivalent)* | Belgium | France | Italy | Spain | Other Europe | USA | Other non Europe | Total |
| Executive staff | 14 | 7 | 2 | 1 | 6 | 6 | 4 | 40 |
| Administrative staff | 67 | 670 | 174 | 34 | 123 | 134 | 44 | 1,246 |
| Non-administrative and other personnel | 0 | 0 | 0 | 0 | 0 | 4 | 0 | 4 |
| **TOTAL** | **81** | **677** | **176** | **35** | **129** | **144** | **48** | **1,290** |

### b. General and administrative expenses

| (in EUR million) | 2013 | 2014 |
|---|---|---|
| Cost of premises | (5) | (4) |
| Rent expense [1] | (10) | (8) |
| Fees | (65) | (70) |
| Marketing, advertising and public relations | (5) | (5) |
| IT expense | (42) | (46) |
| Software, research and development | (8) | (12) |
| Maintenance and repair | (4) | (3) |
| Restructuring costs | 3 | 0 |
| Insurance (except related to pensions) | (12) | (10) |
| Stamp duty | (1) | (1) |
| Other taxes | (32) | (28) |
| Other general and administrative expenses | (9) | 1 |
| **TOTAL** | **(190)** | **(187)** |

*(1) This amount does not include IT equipment rental expenses, which are included in the "IT expense" line*

## 5.8. Depreciation, amortisation and impairment of tangible fixed assets and intangible assets (Item XI - Income Statement)

| **Depreciation and amortisation**<br>(in EUR million) | 2013 | 2014 |
|---|---|---|
| Depreciation of land and buildings, office furniture and other equipment | (7) | (7) |
| Depreciation of other tangible fixed assets | (5) | (4) |
| Amortisation of intangible assets | (21) | (16) |
| **TOTAL** | **(33)** | **(27)** |

| **Impairment**<br>(in EUR million) | 2013 | 2014 |
|---|---|---|
| Impairment on intangible assets | 3 | 0 |
| **TOTAL** | **3** | **0** |

| **Losses or gains**<br>(in EUR million) | 2013 | 2014 |
|---|---|---|
| **TOTAL** | **(3)** | **0** |
| | | |
| **TOTAL** | **(33)** | **(27)** |

## 5.9. Cost of risk (Item XIII - Income statement)

| (in EUR million) | 2013 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Collective impairment | Specific impairment and losses | Total | Collective impairment | Specific impairment and losses | TOTAL |
| Credit (loans, commitments and securities held to maturity) | 1 | (196) | (195) | (75) | 22 | (53) |
| Fixed-income securities available for sale | | 10 | 10 | | (9) | (9) |
| **TOTAL** | **1** | **(186)** | **(185)** | **(75)** | **13** | **(62)** |

### Detail of collective and specific impairments

| **Collective impairement** | 2013 | | | 2014 | | |
|---|---|---|---|---|---|---|
| (in EUR million) | Additions | Recoveries | Total | Additions | Recoveries | Total |
| Loans and securities held to maturity | (212) | 213 | 1 | (155) | 80 | (75) |
| **TOTAL** | **(212)** | **213** | **1** | **(155)** | **80** | **(75)** |

| **Specific impairment** | 2013 | | | | |
|---|---|---|---|---|---|
| (in EUR million) | Additions | Recoveries | Losses | Collections | Total |
| Customer loans and advances | (279) | 116 | (55) | 9 | (208) |
| Accruals and other assets | (2) | 9 | 0 | 3 | 11 |
| Off-balance-sheet commitments | (7) | 8 | 0 | 0 | 1 |
| **TOTAL CREDIT** | **(288)** | **133** | **(55)** | **12** | **(196)** |
| **FIXED-INCOME SECURITIES** | **0** | **86** | **(76)** | **0** | **10** |
| **TOTAL** | **(288)** | **219** | **(130)** | **12** | **(186)** |

| **Specific impairment** | 2014 | | | | |
|---|---|---|---|---|---|
| (in EUR million) | Additions | Recoveries | Losses | Collections | Total |
| Customer loans and advances | (118) | 380 | (248) | 0 | 13 |
| Accruals and other assets | 0 | 8 | (1) | 1 | 8 |
| Off-balance-sheet commitments | 0 | 1 | 0 | 0 | 1 |
| **TOTAL CREDIT** | **(118)** | **389** | **(249)** | **1** | **22** |
| **FIXED-INCOME SECURITIES** | **(9)** | **0** | **0** | **0** | **(9)** |
| **TOTAL** | **(127)** | **389** | **(249)** | **1** | **13** |

## 5.10. Net gains (losses) on other assets (Item XVI - Income statement)

| (in EUR million) | 2013 | 2014 |
|---|---|---|
| Gains (losses) on the disposal of assets held for sale | 2 | 0 |
| Net gains (losses) on disposals of other fixed assets | 1 | (1) |
| Net gains (losses) on disposals of consolidated equity investments (1) | 56 | 0 |
| **TOTAL** | **59** | **(1)** |

*(1) In 2013, this item includes a gain of EUR 64 million on the sale of Sofaxis and an additional loss of EUR 6 million on Dexia Bail.*

## 5.11. Income tax (Item XIX - Income statement)

| **Detail of tax expense**<br>(in EUR million) | 2013 | 2014 |
|---|---|---|
| Income tax on current year | (42) | (8) |
| Deferred taxes on current year | 58 | (22) |
| **TAX ON CURRENT YEAR RESULT (A)** | **16** | **(30)** |
| Income tax on previous year | (10) | (15) |
| Deferred taxes on previous year | 48 | 20 |
| Provision for tax lititgations | (15) | 17 |
| **OTHER TAX EXPENSE (B)** | **23** | **22** |
| **TOTAL (A) + (B)** | **39** | **(8)** |

### Effective corporate income tax charge

The standard tax rate applicable in Belgium in 2013 and 2014 was 33.99%.

Dexia effective tax rate was respectively 1.52% for 2013 and -4.33 % in 2014.

The difference between the standard and the effective tax rate can be analysed as follow:

| (in EUR million) | 2013 | 2014 |
|---|---|---|
| **Net income before tax** | **(1,001)** | **(692)** |
| **Tax base** | **(1,001)** | **(692)** |
| Statutory tax rate | 33.99% | 33.99% |
| **Theoretical corporate income tax at the standard rate** | **340** | **235** |
| Impact of differences between foreign tax rates and the standard Belgian tax rate | (33) | (16) |
| Tax effect of non-deductible expenses | (135) | (143) |
| Tax effect of non-taxable income | 161 | 136 |
| Impact of items taxed at a reduced rate | 6 | (18) |
| Tax effect of change in tax rates | 4 | 0 |
| Other additional taxes or tax savings (1) | 25 | (128) |
| Tax effect from reassessment of unrecognised deferred tax assets | (353) | (95) |
| **Tax on current year** | **16** | **(30)** |
| **Effective tax rate** | **1.52%** | **- 4.33%** |

*(1) This item includes the impact of the difference between tax basis and accounting value related to the merger of Dexia Kommunalkredit Bank and Dexia Crédit Local*

## 5.12. Earnings per share

### a. Basic earnings per share

Basic earnings per share are obtained by dividing «Net income, Group share» by the weighted average number of ordinary shares in issue during the year, less the average number of ordinary shares purchased by the company and held as treasury stock.

| | 2013 | 2014 |
|---|---|---|
| Net income, Group share (EUR million) | (1,083) | (606) |
| Weighted average number of ordinary shares (million) | 1,949 | 1,949 |
| Basic earnings per share (EUR) | (0.56) | (0.31) |
| *- of which, related to continuing activities* | *(0.49)* | *(0.35)* |
| *- of which, related to discontinued activities* | *(0.06)* | *0.04* |

### b. Diluted earnings per share

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to reflect the conversion of all dilutive potential ordinary shares resulting from share options granted to employees and from class B shares. For stock options, the calculation of the number of shares that could have been acquired at fair value (calculated as the average annual share price) is based on the monetary value of the subscription rights attached to the outstanding options.

The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the stock options.

The potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share.

They are antidilutive and not taken into account when their conversion to ordinary shares would decrease the loss per share.

No adjustment is made to net income attributable to equity holders of the parent.

| | 2013 | 2014 |
|---|---|---|
| Net income, Group share (EUR million) | (1,083) | (606) |
| Weighted-average number of ordinary shares (million) | 1,949 | 1,949 |
| Adjustment for stock-options (million) | 0 | 0 |
| Weighted average number of ordinary shares used for the calculation of diluted earnings per share (million) | 1,949 | 1,949 |
| Diluted earnings per share (EUR) | (0.56) | (0.31) |
| *- of which, related to continuing activities* | *(0.49)* | *(0.35)* |
| *- of which, related to discontinued activities* | *(0.06)* | *0.04* |

# 6. Notes on off-balance-sheet items

## 6.1. Regular way trade

| (in EUR million) | 31/12/2013 Continuing operations | 31/12/2013 Disposal groups held for sale | 31/12/2014 |
|---|---|---|---|
| Assets to be delivered | 580 | 0 | 95 |
| Liabilities to be received | 859 | 0 | 313 |

## 6.2. Garantees

| (in EUR million) | 31/12/2013 Continuing operations | 31/12/2013 Disposal groups held for sale | 31/12/2014 |
|---|---|---|---|
| Guarantees given to credit institutions | 604 | 0 | 556 |
| Guarantees given to customers | 2,139 | 0 | 2,061 |
| Guarantees received from credit institutions | 1,295 | 0 | 180 |
| Guarantees received from customers | 15,773 | 0 | 17,412 |
| Guarantees received from the States | 76,702 | 0 | 74,428 |

## 6.3. Loan commitments

| (in EUR million) | 31/12/2013 Continuing operations | 31/12/2013 Disposal groups held for sale | 31/12/2014 |
|---|---|---|---|
| Unused lines granted to credit institutions | 12 | 0 | 11 |
| Unused lines granted to customers | 4,027 | 0 | 2,969 |
| Unused lines granted from credit institutions | 15,984 | 0 | 6,474 |
| Unused lines granted from customers | 865 | 0 | 820 |

## 6.4. Other commitments

| (in EUR million) | 31/12/2013 Continuing operations | 31/12/2013 Disposal groups held for sale | 31/12/2014 |
|---|---|---|---|
| Banking activity - Commitments given | 86,410 | 52 | 89,632 |
| Banking activity - Commitments received | 11,979 | 0 | 12,364 |

# 7. Note on risk exposure



## 7.0. Risk exposure and hedging strategy

We refer to chapter Risk management of the Management Report, pages 17 to 33

## 7.1. Fair value

### a. Fair value measurement and fair value hierarchy of financial instruments

We refer to note 1.1 Accounting policies and valuation methods, paragraph 1.1.7.Fair value of financial instruments

### b. Fair value

The following tables compare fair value with carrying amount of financial instruments not measured at fair value.

| | 31/12/2013 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount | | Fair value | | Unrecognised fair value adjustment | |
| (in EUR million) | Continuing operations | Activities held for sale | Continuing operations | Activities held for sale | Continuing operations | Activities held for sale |
| Cash and central banks | 1,745 | 0 | 1,745 | 0 | 0 | 0 |
| Interbank loans and advances | 8,807 | 47 | 8,379 | 47 | (427) | 0 |
| Customer loans and advances | 129,039 | 0 | 125,549 | 0 | (3,490) | 0 |
| Financial assets held to maturity | 437 | 0 | 469 | 0 | 32 | 0 |
| | | | | | | |
| Central banks | 34,274 | 0 | 34,274 | 0 | (1) | 0 |
| Interbank borrowings and deposits | 31,201 | 0 | 31,247 | 0 | 46 | 0 |
| Customer borrowings and deposits | 8,590 | 0 | 8,574 | 0 | (16) | 0 |
| Debt securities | 96,368 | 0 | 95,323 | 0 | (1,045) | 0 |
| Subordinated debt | 644 | 0 | 606 | 0 | (38) | 0 |

| | 31/12/2014 | | |
|---|---|---|---|
| (in EUR million) | Carrying amount | Fair value | Unrecognised fair value adjustment |
| Cash and central banks | 3,104 | 3,104 | 0 |
| Interbank loans and advances | 8,563 | 8,280 | (283) |
| Customer loans and advances | 135,311 | 129,950 | (5,362) |
| Financial assets held to maturity | 306 | 322 | 16 |
| | | | |
| Central banks | 33,845 | 33,845 | 0 |
| Interbank borrowings and deposits | 44,604 | 44,597 | (8) |
| Customer borrowings and deposits | 7,958 | 7,945 | (13) |
| Debt securities | 89,518 | 90,469 | 951 |
| Subordinated debt | 498 | 494 | (4) |

### c. Methods used to determine the fair value of financial instruments

The following tables provide an analysis of the fair value of financial assets and financial liabilities, based on the degree to which the fair value is observable (Level 1 to 3). The fair value measurement is recurring for financial instruments at fair value. The non-recurring fair value measurement is not significant for Dexia. Following the adoption of IFRS 13 *Fair value measurement* as from 1 January 2013, the method used to measure the fair value applies to all financial instruments.

## Fair value of financial assets

| | 31/12/2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Continuing operations | | | | Activities held for sale | | | |
| (in EUR million) | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Cash and central banks[1] | 0 | 1,745 | 0 | 1,745 | 0 | 0 | 0 | 0 |
| Financial assets at fair value through profit and loss | 1 | 15,127 | 3,221 | 18,348 | 0 | 0 | 0 | 0 |
| ** Loans and securities held for trading* | *0* | *0* | *1,774* | *1,774* | *0* | *0* | *0* | *0* |
| ** Financial assets designated at fair value - equities* | *1* | *0* | *0* | *1* | *0* | *0* | *0* | *0* |
| ** Financial assets designated at fair value - bonds and other fixed-income instruments* | *0* | *0* | *27* | *27* | *0* | *0* | *0* | *0* |
| ** Derivatives held for trading* | | *15,127* | *1,419* | *16,546* | *0* | *0* | *0* | *0* |
| Hedging derivatives | | 5,292 | 653 | 5,945 | 0 | 0 | 0 | 0 |
| Financial assets available for sale | 6,176 | 15,477 | 7,571 | 29,224 | 183 | 37 | 0 | 221 |
| ** Financial assets available for sale - bonds* | *6,157* | *15,402* | *7,297* | *28,856* | *28* | *0* | *0* | *28* |
| ** Financial assets available for sale - equities* | *19* | *75* | *274* | *368* | *156* | *37* | *0* | *193* |
| Interbank loans and advances | 15 | 5,392 | 2,972 | 8,379 | 0 | 47 | 0 | 47 |
| Customer borrowings and deposits | 0 | 18,383 | 107,165 | 125,549 | 0 | 0 | 0 | 0 |
| Financial assets held to maturity | 0 | 104 | 364 | 469 | 0 | 0 | 0 | 0 |
| **TOTAL** | **6,192** | **61,521** | **121,946** | **189,659** | **183** | **84** | **0** | **267** |

*(1) In the absence of observable values on the markets the level has been revised towards level 2.*

| | 31/12/2014 | | | |
|---|---|---|---|---|
| (in EUR million) | Level 1 | Level 2 | Level 3 | Total |
| Cash and central banks | 0 | 3,104 | 0 | 3,104 |
| Financial assets at fair value through profit and loss | 1 | 19,958 | 4,256 | 24,215 |
| ** Loans and securities held for trading* | *0* | *0* | *1,787* | *1,787* |
| ** Financial assets designated at fair value - equities* | *1* | *0* | *0* | *1* |
| ** Financial assets designated at fair value - bonds and other fixed-income instruments* | *0* | *0* | *27* | *27* |
| ** Derivatives held for trading* | *0* | *19,958* | *2,442* | *22,400* |
| Hedging derivatives | 0 | 7,138 | 1,236 | 8,374 |
| Financial assets available for sale | 14,208 | 9,687 | 2,747 | 26,641 |
| ** Financial assets available for sale - bonds* | *14,091* | *9,687* | *2,604* | *26,381* |
| ** Financial assets available for sale - equities* | *117* | *0* | *143* | *260* |
| Interbank loans and advances | 0 | 4,845 | 3,436 | 8,280 |
| Customer borrowings and deposits | 53 | 4,875 | 125,022 | 129,950 |
| Financial assets held to maturity | 21 | 25 | 276 | 322 |
| **TOTAL** | **14,282** | **49,632** | **136,972** | **200,886** |

## Fair value of financial liabilities

| | 31/12/2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Continuing operations | | | | Activities held for sale | | | |
| (in EUR million) | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Cash and central banks (1) | 0 | 34,274 | 0 | 34,274 | 0 | 0 | 0 | 0 |
| Financial liabilities at fair value through profit and loss | 1 | 16,621 | 2,219 | 18,840 | 0 | 0 | 0 | 0 |
| ** Financial liabilities designated at fair value* | *1* | *1,229* | *1,097* | *2,327* | *0* | *0* | *0* | *0* |
| ** Derivatives held for trading* | *0* | *15,392* | *1,122* | *16,514* | *0* | *0* | *0* | *0* |
| Hedging derivatives | 0 | 20,847 | 1,418 | 22,265 | 0 | 0 | 0 | 0 |
| Interbank borrowings and deposits | 0 | 21,369 | 9,878 | 31,247 | 0 | 0 | 0 | 0 |
| Customer borrowings and deposits | 0 | 2,204 | 6,370 | 8,574 | 0 | 0 | 0 | 0 |
| Debt securities | 0 | 27,875 | 67,448 | 95,323 | 0 | 0 | 0 | 0 |
| Subordinated debt | 0 | 55 | 551 | 606 | 0 | 0 | 0 | 0 |
| **TOTAL** | **1** | **123,244** | **87,884** | **211,129** | **0** | **0** | **0** | **0** |

*(1) In the absence of observable values on the markets the level has been revised towards level 2.*

| | As at 31/12/2014 | | | |
|---|---|---|---|---|
| (in EUR million) | Level 1 | Level 2 | Level 3 | Total |
| Central banks | 0 | 33,845 | 0 | 33,845 |
| Financial liabilities at fair value through profit and loss | 1 | 23,069 | 2,662 | 25,731 |
| ** Financial liabilities designated at fair value* | *1* | *1,417* | *805* | *2,222* |
| ** Derivatives held for trading* | *0* | *21,652* | *1,857* | *23,509* |
| Hedging derivatives | 0 | 24,166 | 9,666 | 33,832 |
| Interbank borrowings and deposits | 0 | 23,189 | 21,408 | 44,597 |
| Customer borrowings and deposits | 0 | 6,260 | 1,685 | 7,945 |
| Debt securities | 0 | 73,502 | 16,967 | 90,469 |
| Subordinated debt | 0 | 22 | 472 | 494 |
| **TOTAL** | **1** | **184,053** | **52,859** | **236,913** |

### d. Transfer between level 1 and level 2 – continuing operations

The tables hereunder present the amounts of financial instruments at fair value, for which fair value measurement is recurring, still in the books at the end of the period and for which the methodology of valuation has been changed between level 1 and level 2.

| | 31/12/2013 | | 31/12/2014 | |
|---|---|---|---|---|
| | From 1 to 2 | From 2 to 1 | From 1 to 2 | From 2 to 1 |
| Financial assets available for sale - bonds | 0 | 0 | 504 | 7,107 |
| Financial assets available for sale - equities | 0 | 0 | 0 | 69 |
| **TOTAL FINANCIAL ASSETS** | **0** | **0** | **504** | **7,177** |
| **TOTAL FINANCIAL LIABILITIES** | **0** | **0** | **0** | **0** |

In 2013, there was no transfer between levels 1 and 2. Since 30 September 2014, after performing an analysis of the European Central Bank's recommendations following the asset quality review, Dexia has decided to discontinue the use of external and internal data in its valuation methods and to maximise the use of external market data.

As such, assets previously valued partially with internal data are now valued using only external market data. As a consequence, there were transfers between levels 1 and 2.

## e. Level 3 reconciliation

| Continuing operations (in EUR million) | 2013 Opening balance | Total gains/losses in P&L | Unrealised or deferred gains/losses | Purchase | Sale | Settlement | Transfer into level 3 | Transfer out of level 3 | Other movements [(1)] | Changes in scope of consolidation [(2)] | Closing |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Loans and securities held for trading | 2,198 | 111 | 0 | 0 | (218) | (222) | 0 | 0 | (94) | 0 | 1,774 |
| Financial assets designated at fair value - bonds and other fixed-income instruments | 27 | 5 | 0 | 0 | (5) | 0 | 0 | 0 | 0 | 0 | 27 |
| Derivatives held for trading | 1,390 | (385) | 0 | 448 | 0 | 0 | 0 | 0 | (33) | 0 | 1,419 |
| Hedging derivatives | 629 | (674) | 0 | 3 | 0 | 0 | 0 | (9) | (6) | 710 | 653 |
| Financial assets available for sale - bonds | 17,017 | (452) | (156) | 530 | (270) | (2,426) | 0 | (6,738) [(3)] | (208) | 0 | 7,297 |
| Financial assets available for sale - equities | 332 | 1 | (5) | 0 | (51) | 0 | 0 | 0 | (3) | 0 | 274 |
| **TOTAL FINANCIAL ASSETS** | **21,592** | **(1,394)** | **(161)** | **981** | **(544)** | **(2,649)** | **0** | **(6,748)** | **(344)** | **710** | **11,444** |
| Financial liabilities designated at fair value | 1,154 | (10) | 0 | 0 | 0 | 0 | 0 | 0 | (47) | 0 | 1,097 |
| Derivatives held for trading | 738 | (57) | 0 | 445 | 0 | 0 | 2 | 0 | (7) | 0 | 1,122 |
| Hedging derivatives | 2,475 | (964) | 0 | 24 | 0 | 0 | 1 | (57) | (62) | 0 | 1,418 |
| **TOTAL FINANCIAL LIABILITIES** | **4,367** | **(1,030)** | **0** | **468** | **0** | **0** | **3** | **(57)** | **(116)** | **0** | **3,637** |

*(1) Other movements include notably the impact of changes in exchange rates during the year.*

*(2) Derivatives with Dexia Municipal Agency are no longer eliminated from the consolidated accounts due to the disposal of the company.*

*(3) The Spanish covered bonds were reclassified from level 3 to level 2 as a result of an improvement in the market liquidity at the end of 2013.*

| (in EUR million) | 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Opening balance | Total gains/losses in P&L | Unrealised or deferred gains/losses | Purchase | Sale | Settlement | Transfer into level 3 [(1)] | Transfer out of level 3 [(1)] | Other movements [(2)] | Closing |
| Loans and securities held for trading | 1,774 | 152 | 0 | 0 | (210) | (27) | 0 | 0 | 98 | 1,787 |
| Financial assets designated at fair value - bonds and other fixed-income instruments | 27 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 27 |
| Derivatives held for trading | 1,419 | (78) | 0 | 0 | 0 | 0 | 1,068 | (1) | 34 | 2,442 |
| Hedging derivatives | 653 | 225 | 0 | 0 | 0 | 0 | 450 | (94) | 3 | 1,236 |
| Financial assets available for sale - bonds | 7,297 | 221 | 206 | 29 | (95) | (1,376) | 623 | (4,520) | 220 | 2,604 |
| Financial assets available for sale - equities | 274 | (1) | (124) | 0 | (13) | (3) | 1 | 0 | 8 | 143 |
| **TOTAL FINANCIAL ASSETS** | **11,444** | **518** | **82** | **29** | **(318)** | **(1,406)** | **2,142** | **(4,615)** | **363** | **8,238** |
| Financial liabilities designated at fair value | 1,097 | (15) | 0 | 0 | 0 | (409) | 19 | 0 | 112 | 805 |
| Derivatives held for trading | 1,122 | (39) | 0 | 0 | 0 | 0 | 861 | (86) | 1 | 1,857 |
| Hedging derivatives | 1,418 | 830 | 0 | 0 | 0 | (1) | 7,513 | (99) | 5 | 9,666 |
| **TOTAL FINANCIAL LIABILITIES** | **3,637** | **776** | **0** | **0** | **0** | **(410)** | **8,393** | **(186)** | **118** | **12,328** |

*(1) * Financial assets available for sale - bonds: a carrying amount of about EUR 2.5 billion of illiquid bonds was reclassified as at 1 October 2014 from «Available for Sale» to «Loans and advances», in accordance with the management intentions and with the requirements of the standard IAS 39 revised (see also note 2,13 Reclassification of financial assets). Furthermore, after analysis of the ECB's recommendations in the framework of its asset quality review, Dexia has 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. This also led to movements in the financial assets valued in level 3 for an amount of about EUR 1.5 billion.*

** Derivatives: a methodological change was applied for the levels allocation, with a specific analysis of each market data used as input in rate models, regarding observability and liquidity. The change has led to consider more derivatives as valued in level 3.*

*(2) Other movements include notably the impact of changes in exchange rates during the year*

### f. Sensitivity of level 3 valuations to alternative assumptions

Dexia fair value applied to bonds and CDS classified in level 3 is partly based on unobservable parameters. The sensitivity analysis described below measures the impact on fair value of alternative assumptions used for unobservable parameters at closing date.
Dexia decided to elaborate alternative assumptions on the following unobservable parameters :
- credit spreads, depending on availability of credit spreads for the same counterparty, or credit spreads based on similar counterparties, similar sectors or by using credit risk indexed on liquid CDS indexes;
- the basis Cash – CDS that allows to deduct bonds spreads from CDS spreads;

Tests have been performed on all bonds and CDS classified in level 3. The main impacts are the following:
- For level 3 bonds in AFS, the sensitivity of the AFS reserve to alternative assumptions is estimated between a positive impact of EUR 33 million and a negative impact of EUR – 33 million for 2014, while in 2013, it was estimated between a positive impact of EUR 151 million and a negative impact of EUR – 31 million.
- Negative Basis Trades are considered as one single product, and are therefore tested for the bond and its related CDS together. The main assumption having an impact on their fair value is the unwinding impact. Based on the important number of unwinds performed by Dexia since 2009, and taking into account the stock of remaining NBT transactions in 2014, the positive impact (unwinds cost of 2009) is EUR 5.1 million whereas the negative impact (unwinds cost of 2011) gives an impact of EUR -29.4 million. For 2013, the positive impact (unwinds cost of 2009) was +EUR 5.8 million whereas the negative impact (unwinds cost of 2011) gave an impact of EUR -31.6 million.

The impact of the credit spreads alternative assumptions on Dexia credit derivatives is estimated at EUR 27.4 million (positive scenario) versus EUR -29.8 million (negative scenario) before tax, while in 2013, it was estimated at EUR 2.7 million (positive scenario) versus EUR -2.8 million (negative scenario).

#### g. Difference between transaction prices and modelled values (deferred day one profit)

No DOP amounts were taken upfront as at 31 December 2014 and they amounted to less than EUR 1 million as at 31 December 2013. The amounts are recognised in V. *Net gains (losses) on financial instruments at fair value through profit or loss.*

## 7.2. Credit risk exposure

Credit risk exposure is disclosed in the same way as it is reported to the Management and is :
- the net carrying amount for balance sheet assets other than derivative contracts (i.e. accounting value after deduction of specific provisions);
- the fair value of derivatives;
- the full amount of off-balance-sheet commitments: it is either the undrawn part of liquidity facilities or the maximum amount that Dexia is committed to honor with regards to the guarantees it has granted to third parties.

Credit risk exposure is broken down by geographical region and by counterparty taking into account all guarantees obtained and financial collaterals (cash collateral and financial collateral for Repo and OTC instruments).
This means that when the credit risk exposure is guaranteed by a third party whose weighted risk (according to definition stated in the Basel regulation) is lower than the one of the direct borrower, the exposure is then reported in the guarantor's geographical region and activity sector.
As at 31 December 2014, Dexia Group's credit risk exposure amounted to EUR 172 billion.

#### a. Exposure by geographical region and by counterparty category

**Exposure by geographic region**

| | 31/12/2013 | | 31/12/2014 |
|---|---|---|---|
| (in EUR million) | Continuing operations | Activities held for sale | Continuing operations |
| France | 28,094 | 2 | 26,656 |
| Belgium | 3,496 | 5 | 3,134 |
| Germany | 21,987 | 1 | 21,397 |
| Greece | 216 | 0 | 156 |
| Ireland | 267 | 0 | 221 |
| Italy | 27,766 | 0 | 27,178 |
| Luxembourg | 133 | 15 | 158 |
| Spain | 19,939 | 0 | 18,968 |
| Portugal | 3,740 | 0 | 4,122 |
| Hungary | 1,306 | 0 | 1,102 |
| Austria | 1,732 | 0 | 1,481 |
| Central and Eastern Europe | 3,759 | 0 | 3,539 |
| Netherlands | 944 | 0 | 621 |
| Scandinavian countries | 1,035 | 0 | 1,113 |
| Great Britain | 16,748 | 0 | 17,865 |
| Switzerland | 536 | 0 | 553 |
| Turkey | 540 | 0 | 502 |
| United States and Canada | 26,552 | 0 | 28,689 |
| South and Central America | 715 | 0 | 584 |
| Southeast Asia | 1,062 | 0 | 990 |
| Japan | 6,002 | 0 | 5,839 |
| Other (1) | 6,761 | 102 | 7,369 |
| **TOTAL** | **173,331** | **126** | **172,238** |

*(1) Includes supranational entities*

### Exposure by category of counterparty

| | 31/12/2013 | | 31/12/2014 |
|---|---|---|---|
| (EUR million) | Continuing operations | Activities held for sale | Continuing operations |
| Central governments | 26,836 | 0 | 28,148 |
| Local public sector[(1)] | 90,460 | 0 | 86,526 |
| Financial institutions | 25,669 | 47 | 27,340 |
| Corporates | 5,827 | 79 | 5,538 |
| Monoline | 3,143 | 0 | 3,232 |
| ABS/MBS | 6,901 | 0 | 6,692 |
| Project finance | 14,493 | 0 | 14,761 |
| Individuals, SME, self-employed | 2 | 0 | 1 |
| **TOTAL** | **173,331** | **126** | **172,238** |

*(1) As at 31 December 2013, this category included for continuing activities: EUR 82 million on Greece, EUR 60 million on Hungary, EUR 11,604 million on Italy, EUR 1,805 million on Portugal and EUR 9,281 million on Spain and as at 31/12/2014, this category includes: EUR 72 million on Greece, EUR 31 million on Hungary, EUR 11 125 million on Italy, EUR 1 788 million on Portugal and EUR 7 929 million on Spain*

### b. Maximum credit risk exposure by class of financial instruments

| | 31/12/2013 | | | | 31/12/2014 | |
|---|---|---|---|---|---|---|
| | Continuing operations | | Disposals groups held for sale | | Continuing operations | |
| (in EUR million) | Credit risk exposure | Financial effect of the collateral | Credit risk exposure | Financial effect of the collateral | Credit risk exposure | Financial effect of the collateral |
| Financial assets available for sale (excluding variable income securities) | 28,794 | 0 | 0 | 0 | 26,342 | 0 |
| Financial assets designated at fair value (excluding variable income securities) | 27 | 0 | 0 | 0 | 27 | 0 |
| Financial assets held for trading (excluding variable income securities) | 1,774 | 0 | 0 | 0 | 1,787 | 0 |
| Derivatives held for trading | 3,817 | 3,582 | 0 | 0 | 4,900 | 3,678 |
| Hedging derivatives | 333 | 1,095 | 0 | 0 | 223 | 1,704 |
| Financial assets held to maturity | 434 | 0 | 0 | 0 | 305 | 0 |
| Loans and advances (at amortized cost) | 127,554 | 949 | 47 | 0 | 125,902 | 1,557 |
| Other financial instruments | 936 | 0 | 79 | 0 | 1,227 | 0 |
| Loans commitments granted | 4,028 | 0 | 0 | 0 | 2,962 | 0 |
| Guarantee commitments granted | 5,634 | 13,818 | 0 | 0 | 8,564 | 29,476 |
| **TOTAL** | **173,331** | **19,445** | **126** | **0** | **172,238** | **36,415** |

Dexia holds financial collaterals composed of cash collaterals and term deposits and, to a lesser extent, of investment grade bonds ( mainly AAA- AA sovereign or banking issuers).
Only financial collaterals eligible under Basel's regulation and directly held by Dexia are considered.
The figures in "Credit risk exposure" have been decreased by the financial effect of the collateral. This explains why the amount of the financial effect of the collateral can be higher than the credit risk exposure amount.

### c. Credit quality of performing financial assets

The credit quality of financial assets is measured by reference to internal (Basel standard) or external ratings. Indeed, Dexia applies the AIRBA (Advanced Internal Ratings Based Approach) for the calculation of capital requirements for credit risk within the context of Pillar 1 of Basel, except for ABS positions for which credit risk is calculated in accordance to the Ratings based Approach, based on external ratings (Fitch, Standard &Poors or Moody's) and for part of its portfolio where credit risk exposure is calculated in accordance with the Basel Standard Method.

| | 31/12/2013 | | | | |
|---|---|---|---|---|---|
| (in EUR million) | AAA to AA- | A+ to BBB- | Non investment grade | Unrated | Total |
| Financial assets available for sale (excluding variable income securities) | 5,468 | 18,415 | 4,905 | 0 | 28,788 |
| Financial assets designated at fair value (excluding variable income securities) | 0 | 6 | 21 | 0 | 27 |
| Financial assets held for trading (excluding variable income securities) | 636 | 1,092 | 46 | 0 | 1,774 |
| Derivatives held for trading | 719 | 2,257 | 578 | 19 | 3,574 |
| Hedging derivatives | 60 | 138 | 94 | 0 | 293 |
| Financial assets held to maturity | 66 | 368 | 0 | 0 | 434 |
| Loans and advances (at amortised cost) | 52,175 | 57,521 | 15,488 | 567 | 125,752 |
| Other financial instruments | 177 | 4 | 1 | 742 | 924 |
| Loans commitments granted | 2,028 | 1,690 | 241 | 8 | 3,967 |
| Guarantee commitments granted | 319 | 4,728 | 512 | 54 | 5,613 |
| **TOTAL - CONTINUING OPERATIONS** | **61,650** | **86,219** | **21,886** | **1,391** | **171,146** |
| **TOTAL - DISPOSAL GROUPS HELD FOR SALE** | **35** | **12** | **0** | **79** | **126** |
| **TOTAL** | **61,684** | **86,231** | **21,886** | **1,470** | **171,272** |

| | 31/12/2014 | | | | |
|---|---|---|---|---|---|
| (in EUR million) | AAA to AA- | A+ to BBB- | Non investment grade | Unrated | Total |
| Financial assets available for sale (excluding variable income securities) | 4,717 | 17,721 | 3,896 | 0 | 26,335 |
| Financial assets designated at fair value (excluding variable income securities) | 0 | 6 | 20 | 0 | 27 |
| Financial assets held for trading (excluding variable income securities) | 282 | 1,463 | 42 | 0 | 1,787 |
| Derivatives held for trading | 908 | 3,020 | 677 | 18 | 4,623 |
| Hedging derivatives | 62 | 54 | 105 | 0 | 220 |
| Financial assets held to maturity | 46 | 258 | 0 | 0 | 305 |
| Loans and advances (at amortised cost) | 55,416 | 53,081 | 15,401 | 462 | 124,361 |
| Other financial instruments | 231 | 5 | 1 | 976 | 1,214 |
| Loans commitments granted | 1,781 | 897 | 179 | 1 | 2,857 |
| Guarantee commitments granted | 1,184 | 6,858 | 444 | 52 | 8,537 |
| **TOTAL** | **64,628** | **83,363** | **20,764** | **1,509** | **170,265** |

### d. Past-due and impaired financial assets

A financial asset is past due when the counterparty has failed to make a payment when contractually due. This is considered by contract. As an exemple, if a counterparty fails to pay the required interest at due date, the entire loan is considered as past due. Financial assets are classified as impaired in the cases described in note 1.1 "Accounting policies and valuation methods".

| (in EUR million) | 31/12/2013<br>Past-due but not impaired financial assets<br>Less than 90 days | <br><br>90 days to 180 days | <br><br>Over 180 days | <br>Carrying amount of individually impaired financial assets, before deducting any impairment loss |
|---|---|---|---|---|
| Financial assets available for sale (excluding variable income securities) | 0 | 0 | 0 | 69 |
| Loans and advances (at amortised cost) | 199 | 52 | 478 | 1,391 |
| Financial assets held to maturity | 0 | 0 | 110 | 9 |
| **TOTAL - CONTINUING OPERATIONS** | **199** | **52** | **588** | **1,469** |
| **TOTAL - DISPOSAL GROUPS HELD FOR SALE** | **0** | **0** | **0** | **0** |
| **TOTAL** | **199** | **52** | **588** | **1,469** |

| (in EUR million) | 31/12/2014<br>Past-due but not impaired financial assets<br>Less than 90 days | <br><br>90 days to 180 days | <br><br>Over 180 days | <br>Carrying amount of individually impaired financial assets, before deducting any impairment loss |
|---|---|---|---|---|
| Financial assets available for sale (excluding variable income securities) | 0 | 0 | 0 | 72 |
| Loans and advances (at amortised cost) | 183 | 28 | 474 | 1,161 |
| Other financial instruments | 0 | 0 | 188 | 2 |
| **TOTAL** | **183** | **28** | **663** | **1,235** |

### Forbearance

Regarding Dexia activities, restructured loans include 3 different types of restructuring:

1. Restructuring related to commercial relationships with customers, which represented almost all restructuring until 2011 except litigations in The Netherlands;
2. Restructuring related to litigations, mainly on structured loans, with customers without any financial difficulties;
3. Restructuring related to financial difficulties of the counterparty both under normal relationship or under litigations.

In accordance wih the EBA's definition of Forbearance, only the 3rd case is considered as forborne loan in the context of this analysis. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments.

Total assets include around EUR 1 billion of forborne assets as at 31 December 2014. This amount was about EUR 0.8 billion as at 31 December 2013.

### e. Collateral and other credit enhancements obtained by taking possession of collateral during the period

There were no assets of this type in 2013 and 2014.

## f. Movements on impairment on financial assets

| | 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (in EUR million) | As at 1 Jan. | Additions | Reversals | Utilisation | Other | As at 31 Dec. | Recoveries directly recognised in profit or loss | Charge-offs directly recognised in profit or loss |
| **Specific impairment** | **(568)** | **(286)** | **170** | **43** | **16** | **(624)** | **12** | **(130)** |
| Customer loans and advances | (395) | (279) | 112 | 4 | 13 | (545) | 9 | (55) |
| Available for sale securities | (155) | (5) | 49 | 39 | 2 | (70) | 0 | (76) |
| *Fixed revenue instruments* | *(121)* | *0* | *49* | *37* | 1 | *(32)* | *0* | *(76)* |
| *Variable revenue instruments* | *(34)* | *(5)* | *0* | *2* | *1* | *(38)* | *0* | *0* |
| Other accounts and receivables | (18) | (2) | 9 | 0 | 2 | (9) | 3 | 0 |
| **Collective impairment** | **(422)** | **(212)** | **213** | **0** | 3 | **(419)** | | |
| Interbank loans and advances | (6) | (5) | 7 | 0 | 0 | (5) | | |
| Customer loans and advances | (416) | (207) | 206 | 0 | 3 | (414) | | |
| **TOTAL** | **(990)** | **(498)** | **383** | **43** | **19** | **(1,043)** | **12** | **(130)** |

*(1) Other adjustments include notably the impact of changes in exchange rates and in the scope of consolidation during the year.*

| (in EUR million) | 2014 As at 1 Jan. | Additions | Reversals | Utilisation | Other adjust-ments[1] | As at 31 Dec. | Recoveries directly recognized in profit or loss | Charge-offs directly recognized in profit or loss |
|---|---|---|---|---|---|---|---|---|
| **Specific impairment** | **(624)** | **(135)** | **366** | **31** | **(28)** | **(391)** | **1** | **(249)** |
| Customer loans and advances | (545) | (118) | 357 | 20 | (24) | (309) | 0 | (248) |
| Available for sale securities | (70) | (17) | 0 | 11 | (4) | (80) | 0 | 0 |
| *Fixed revenue instruments* | *(32)* | *(9)* | *0* | *0* | *(2)* | *(43)* | *0* | *0* |
| *Variable revenue instruments* | *(38)* | *(8)* | *0* | *11* | *(2)* | *(38)* | *0* | *0* |
| Other accounts and receivables | (9) | 0 | 8 | 0 | (1) | (2) | 1 | (1) |
| **Collective impairment** | **(419)** | **(155)** | **80** | **0** | **(9)** | **(503)** | | |
| Interbank loans and advances | (5) | (11) | 2 | 0 | 0 | (14) | | |
| Customer loans and advances | (414) | (144) | 78 | 0 | (9) | (490) | | |
| **TOTAL** | **(1,043)** | **(290)** | **446** | **31** | **(38)** | **(894)** | **1** | **(249)** |

*(1) Other adjustments include notably the impact of changes in exchange rates during the year.*

### g. Credit risk on loans and advances designated at fair value through profit or loss

Dexia no longer holds loans and advances designated at fair value through profit or loss.

### h. Credit risk on financial liabilities designated at fair value through profit or loss

| (in EUR million) | Carrying amount | Amount of change in the fair value attributable to changes in the credit risk: For the period | Cumulative | Difference between carrying amount and amount contractually required to be paid at maturity [1] |
|---|---|---|---|---|
| As at 31 December 2013 | 2,327 | 82 | (104) | 286 |
| As at 31 December 2014 | 2,222 | (21) | (125) | 485 |

*(1) This amount includes the premium/discount and change in market value.*

See also note 3.1 *Financial liabilities at fair value through profit or loss*.

## 7.3. Collateral

### a. Nature of the assets received as collateral if this collateral can be sold or repledged

| | 2013 | | 2014 | |
|---|---|---|---|---|
| (in EUR million) | Fair value of collateral held | Fair value of collateral sold or repledged | Fair value of collateral held | Fair value of collateral sold or repledged |
| Debt securities | 591 | 550 | 1,641 | 1,628 |
| **TOTAL** | **591** | **550** | **1,641** | **1 628** |

Figures 2013 have been restated.

Collateral is obtained in connection with the repurchase agreement activities.

### b. Financial assets pledged as collateral for liabilities or contingent liabilities

| (in EUR million) | 2013 | 2014 |
|---|---|---|
| **Carrying amount of financial assets pledged as collateral for liabilities** | 106,149 | 120,812 |

The amount of EUR 106 billion in 2013 and EUR 121 billion in 2014 represents the amount of liquidity paid as collateral for derivatives and assets pledged as collateral for funding received from the Eurosystem, the European Investment Bank, agreements for the temporary lending of stocks or other secured funding. This amount includes neither the assets guaranteeing the covered bonds issued by Dexia Kommunalbank Deutschland and Dexia LdG Banque SA, nor Dexia FP Holdings Inc.'s Guaranteed Investment Contracts (GICs). These assets are close to EUR 33 billion in 2014 (EUR 34 billion in 2013).

## 7.4. Interest-rate repricing risk: breakdown by remaining maturity until next refixing interest rate

Demand deposits are reported in the "Demand"column, as the information presented below takes into account the current maturity until the next date on which interest rates are reset from an accounting standpoint, rather than assumptions based on observed behavorial data.

### a. Analysis of assets

| | 31/12/2013 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in EUR million) | **Demand** | **Less than 3 months** | **3 months to 1 year** | **1 to 5 years** | **Over 5 years** | **Undeter-mined maturity** | **Accrued interest** | **Fair value adjust-men** | **Impair-ment** | **Total** |
| Cash and central banks | 1,745 | 0 | 0 | 0 | 0 | 0 | 0 | | | 1,745 |
| Financial assets at fair value through profit or loss | 0 | 1,427 | 3 | 53 | 26 | | 1,215 | 15,623 | , | 18,348 |
| *of which Trading derivatives* | | | | | | | *1,209* | *15,336* | | *16,546* |
| Hedging derivatives | | | | | | | 756 | 5,189 | | 5,945 |
| Financial assets available for sale | 793 | 4,550 | 3,261 | 5,662 | 13,362 | 239 | 497 | 932 | (70) | 29,224 |
| Interbank loans and advances | 710 | 3,358 | 1,415 | 1,270 | 1,496 | 0 | 44 | 518 | (5) | 8,807 |
| Customer loans and advances | 149 | 29,908 | 28,682 | 12,592 | 46,179 | 0 | 784 | 11,703 | (958) | 129,039 |
| Fair value revaluation of portfolio hedge | | | | | | | | 1,035 | | 1,035 |
| Financial assets held to maturity | 0 | 25 | 49 | 343 | 15 | 0 | 5 | | 0 | 437 |
| Accruals and other assets | 3 | 533 | 155 | 1 | 0 | 26,582 | 5 | 0 | (9) | 27,270 |
| *of which paid cash collateral* | | | | | | *26,537* | *5* | | | *26,542* |
| *Subtotal financial assets used to calculate the gap* | *3,400* | *38,374* | *33,562* | *19,867* | *61,052* | *26,821* | | | | |
| Non-financial assets | | | | | | 615 | | (1) | 0 | 614 |
| **TOTAL CONTINUING OPERATIONS** | **3,400** | **39,801** | **33,565** | **19,920** | **61,078** | **27,436** | **3,306** | **35,000** | **(1,043)** | **222,464** |
| Disposal groups held for sale | 47 | 78 | 0 | 0 | 0 | 347 | 0 | 0 | 0 | 472 |
| **TOTAL** | **3,447** | **39,879** | **33,565** | **19,920** | **61,078** | **27,783** | **3,306** | **35,000** | **(1,043)** | **222,936** |

The figures of 2013 have been restated to disclose paid cash collaterals in undetermined maturity

### b. Analysis of liabilities excluding shareholders' equity

| (in EUR million) | 31/12/2013 Demand | Less than 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Undeter-mined maturity | Accrued interest | Fair value adjust-men | Total |
|---|---|---|---|---|---|---|---|---|---|
| Central banks | 0 | 17,891 | 175 | 15,615 | 125 | 0 | 469 | | 34,274 |
| Financial liabilities at fair value through profit and loss | 0 | 36 | 309 | 357 | 1,261 | 0 | 1,158 | 15,720 | 18,840 |
| *of which Trading derivatives* | | | | | | | *1,080* | *15,434* | *16,514* |
| Hedging derivatives | | | | | | | 1,460 | 20,805 | 22,265 |
| Interbank borrowings and deposits | 82 | 21,842 | 6,917 | 972 | 1,306 | 0 | 71 | 11 | 31,201 |
| Customer borrwings and deposits | 2,033 | 2,904 | 1,714 | 1,074 | 735 | 0 | 51 | 79 | 8,590 |
| Debt securities | 1 | 51,534 | 13,603 | 11,855 | 15,092 | 0 | 851 | 3,431 | 96,368 |
| Fair value revaluation of portfolio hedge | | | | | | | | 231 | 231 |
| Subordinated debts | | 292 | 131 | 62 | 138 | 0 | 8 | 14 | 644 |
| Accruals and other liabilities | 22 | 329 | 208 | 30 | 94 | 5,301 | 3 | | 5,987 |
| *of which received cash collateral* | | | | | | *5,124* | *1* | | *5,124* |
| *Subtotal financial liabilities used to calculate the gap* | *2,138* | *94,827* | *23,056* | *29,965* | *18,751* | *5,301* | | | |
| Non-financial liabilities | | | | | | 454 | | | 454 |
| **TOTAL CONTINUING OPERATIONS** | **2,138** | **94,827** | **23,056** | **29,965** | **18,751** | **5,755** | **4,072** | **40,291** | **218,854** |
| Liabilities included in disposal groups held for sale | 0 | 78 | 20 | 0 | 0 | 25 | 0 | 0 | 123 |
| **TOTAL** | **2,138** | **94,905** | **23,076** | **29,965** | **18,751** | **5,780** | **4,072** | **40,291** | **218,977** |

The figures of 2013 have been restated in order to disclose received cash collaterals in undetermined maturity

### c. Balance-sheet sensitivity gap as at 31/12/2013

| (in EUR million) | Demand | 3 months to 1 year | Over 5 years | De 1 à 5 ans | Plus de 5 ans | Durée indétermi-née |
|---|---|---|---|---|---|---|
| Continuing operations | 1,263 | (56,453) | 10,506 | (10,098) | 42,301 | 21,520 |
| Disposal groups held for sale | 47 | 2 | 0 | 0 | 0 | 218 |

Balance-sheet sensitivity gap is hedged through derivatives.

### a. Analysis of assets

| | 31/12/2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in EUR million) | **Demand** | **Less than 3 months** | **3 months to 1 year** | **1 to 5 years** | **Over 5 years** | **Undetermined maturity** | **Accrued interest** | **Fair value adjustment** | **Impairment** | **Total** |
| Cash and central banks | 3,104 | 0 | 0 | 0 | 0 | 0 | 0 | | | 3,104 |
| Financial assets at fair value through profit or loss | 0 | 1,324 | 92 | 26 | 20 | 0 | 1,148 | 21,604 | , | 24,215 |
| *of which Trading derivatives* | | | | | | | *1,142* | *21,258* | | *22,400* |
| Hedging derivatives | | | | | | | 677 | 7,697 | | 8,374 |
| Financial assets available for sale | 17 | 3,371 | 1,366 | 4,481 | 12,522 | 853 | 422 | 3,690 | (80) | 26,641 |
| Interbank loans and advances | 799 | 2,967 | 727 | 2,375 | 910 | 0 | 30 | 769 | (14) | 8,563 |
| Customer loans and advances | 133 | 30,597 | 28,968 | 11,168 | 43,795 | 46 | 795 | 20,606 | (798) | 135,311 |
| Fair value revaluation of portfolio hedge | | | | | | | | 1,910 | | 1,910 |
| Financial assets held to maturity | 0 | 3 | 100 | 200 | 0 | 0 | 2 | | 0 | 306 |
| Accruals and other assets | 6 | 1,054 | 134 | 0 | 0 | 37,063 | 0 | 0 | (2) | 38,256 |
| *of which paid cash collateral* | | | | | | *37,033* | *0* | | | *37,033* |
| *Subtotal financial assets used to calculate the gap* | *4,059* | *39,317* | *31,387* | *18,250* | *57,247* | *37,963* | | | | |
| Non-financial assets | | | | | | 442 | | (1) | 0 | 440 |
| **TOTAL** | **4,059** | **39,317** | **31,387** | **18,250** | **57,247** | **38,404** | **3,074** | **56,276** | **(894)** | **247,120** |

### b. Analysis of liabilities excluding shareholders' equity

| (in EUR million) | 31/12/2014 Demand | Less than 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Undetermined maturity | Accrued interest | Fair value adjustment | Total |
|---|---|---|---|---|---|---|---|---|---|
| Central banks | 0 | 33,505 | 0 | 0 | 0 | 0 | 340 | | 33,845 |
| Financial liabilities at fair value through profit and loss | 0 | 10 | 310 | 180 | 1,213 | 0 | 1,078 | 22,941 | 25,731 |
| *of which Trading derivatives* | | | | | | | *1,055* | *22,455* | *23,509* |
| Hedging derivatives | | | | | | | 1,385 | 32,447 | 33,832 |
| Interbank borrowings and deposits | 66 | 36,201 | 4,573 | 2,724 | 958 | 0 | 67 | 14 | 44,604 |
| Customer borrowings and deposits | 2,164 | 1,996 | 2,433 | 757 | 519 | 0 | 31 | 59 | 7,958 |
| Debt securities | 1 | 24,799 | 21,957 | 22,014 | 14,529 | 0 | 703 | 5,515 | 89,518 |
| Fair value revaluation of portfolio hedge | | | | | | | | 227 | 227 |
| Subordinated debts | | 399 | 0 | 59 | 32 | 0 | 4 | 5 | 498 |
| Accruals and other liabilities | 11 | 1,163 | 40 | 30 | 60 | 5,967 | 1 | | 7,272 |
| *of which received cash collateral* | | | | | | *5,855* | 1 | | *5,856* |
| *Subtotal financial liabilities used to calculate the gap* | *2,242* | *98,073* | *29,313* | *25,764* | *17,312* | *5,967* | | | |
| Non-financial liabilities | | | | | | 506 | | | 506 |
| **TOTAL** | **2,242** | **98,073** | **29,313** | **25,764** | **17,312** | **6,473** | **3,609** | **61,207** | **243,992** |

### c. Balance-sheet sensitivity gap as at 31/12/2014

| (in EUR million) | Demand | Less than 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Undetermined maturity |
|---|---|---|---|---|---|---|
| | 1,817 | (58,756) | 2,075 | (7,514) | 39,935 | 31,996 |

Balance-sheet sensitivity gap is hedged through derivatives.

## 7.5 Sensitivity to interest rate risk and other market risks

### a. Treasury and Financial Markets (TFM)

The Dexia Group mainly assesses market risk using a combination of two measurement indicators, resulting in a limit-based risk management framework.

• The Value at Risk (VaR) is a measure of the expected potential loss with a 99% confidence interval and for a holding period of ten days. Dexia uses a number of VaR approaches to measure the market risk inherent in its portfolios and activities:

– Directional interest rate risk and foreign exchange risk are measured via a parametric VaR approach using a methodology based on the assumed normal distribution of yields relating to various risk factors.

– Credit spread risk (also known as specific interest rate risk) and other risks in the trading portfolio are measured using a historical VaR approach. Historical VaR is a VaR whose distribution is constructed by applying historical scenarios for the relevant risk factors associated with the current portfolio.

• Limits governing sensitivity to various risk factors, maturity, market and authorised products are put in place for each type of activity, ensuring consistency between overall value limits and operational thresholds used by front office. These measures also serve to manage risk that would only be imperfectly covered by VaR measures.

Stress testing completes the risk management system by exploring a range of events outside the probability framework of VaR measurement techniques. The assumptions underlying stress test scenarios are regularly revised and updated. The results of consolidated stress tests and the corresponding analysis are presented quarterly to the Market Risk Committee.

#### Value at Risk of Market Activities

The table below shows the details of VaR used for market activities, excluding the bond portfolio. At the end of December 2014, total VaR consumption stood at EUR 13.3 million, compared with EUR 12.2 million at the end of 2013, a level lower than the global limit of EUR 40 million.

The Dexia trading portfolio is composed of two groups of activity:

• transactions initiated by financial instrument trading activities until the date on which the Group was placed in orderly resolution, mostly covered back-to-back;

• transactions intended to hedge transformation risks on the balance sheet, and in particular the liquidity gap on currencies, but for which there is no documentation of an accounting hedge relationship under IFRS standards.

The main risk factors of the trading portfolio are:

– cross currency basis swap risk,

– basis risk BOR-OIS.

**VALUE AT RISK OF MARKET ACTIVITIES**

| (in EUR million) | 2013 | | | | | |
|---|---|---|---|---|---|---|
| **VaR (10 days, 99 %)** | **By risk factor** | | | **Overall** | | |
| | **Interest rate and currency *(Banking et Trading)*** | **Spread *(Trading)*** | **Other risks (1)** | **Activities held for sale** | **Continuing activities** | **Limit** |
| Average | 2.6 | 7.2 | 0.4 | 0 | 10.2 | 40 |
| Period end | 6.4 | 5.6 | 0.3 | 0 | 12.2 | |
| Maximum | 7.8 | 8.4 | 0.7 | 0 | 14.9 | |
| Minimum | 0.7 | 5.6 | 0.2 | 0 | 8.2 | |

*(1) Other risks: inflation, $CO_2$, commodities.*

**VALUE AT RISK OF MARKET ACTIVITIES**

| (in EUR million) | 2014 | | | | |
|---|---|---|---|---|---|
| **VaR (10 days, 99 %)** | **By risk factor** | | | **Overall** | |
| | **Interest rate and currency *(Banking et Trading)*** | **Spread *(Trading)*** | **Other risks** | | **Limit** |
| Average | 6.7 | 5.3 | 0.2 | 12.1 | 40 |
| Period end | 8.3 | 4.7 | 0.3 | 13.3 | |
| Maximum | 8.3 | 5.8 | 0.4 | 13.3 | |
| Minimum | 5.4 | 4.7 | 0.0 | 11.0 | |

### b. Balance Sheet Management (BSM)

Interest rate risk is measured via sensitivity. Risk sensitivity measures reflect balance sheet exposure to a 1% movement on the yield curve. The main indicator used to determine limits and to measure and monitor risk is the sensitivity of the net present value of accrued interest positions to interest rate fluctuations.

The overall and partial sensitivities by time bucket are the main risk indicators used by the ALM risk committees, organised within the Management Board, to manage risk. The Dexia Group's structural interest rate risk is mainly concentrated on European long-term interest rates, and arises from the imbalance between Dexia's assets and liabilities after hedging for interest rate risk.

**SENSITIVITY AND LIMITS OF LONG TERM ALM**

| (in EUR million) | 2013 | 2014 |
|---|---|---|
| Sensitivity | + 10.5 | - 14.2 |
| Limit | +/- 96 | +/- 80 |

Figures 2013 of the sentivity have been restated

The sensitivity of long term ALM amounted to EUR -14.2 million as at 31 December 2014 against EUR +10.5 million as at 31 December 2013 for the entire Dexia Group (continuing operations). It complies with the ALM strategy which seeks to minimise the volatility of the income statement.

### c. Dexia banking bond portfolio exposure

| (in EUR billion) | 2013 | 2014 |
|---|---|---|
| Outstanding | 75 | 72 |

***Interest-rate sensitivity**

The interest-rate risk of the bond portfolio is hedged (its purpose is solely the management of the credit spread); therefore it has a very limited sensitivity to change of interest rate.

*** Credit spread sensitivity**

A major part of AFS bond portfolios was reclassified as Loans and Receivables. The AFS reserve of these securitites is insensitive to credit spread variation.

As for other bond portfolios, the credit spread sensitivity measures the sensitivity in fair value reserve of bond portfolio classified as AFS to a basis point credit-spread increase, in millions of EUR. This sensitivity is closely monitored.

The reduction of sensitivity compared to the end of 2013 is essentially due to the reclassification of illiquid assets to the category "Loans and advances" on 1 October 2014.

| (in EUR million) | 2013 | 2014 |
|---|---|---|
| Sensitivity | (23) | (20) |

## 7.6. Liquidity risk

### a. Analysis by term to maturity

A large part of the balance sheet consists of the revaluation of assets, liabilities and derivatives. As such revaluations vary constantly and cannot therefore be linked to the maturity of the financial instruments, they are presented under a separate column.
Demand deposits and saving deposits are included in the "Demand" column, even though they have no fixed repayment date.

#### 1. Analysis of assets

| | 31/12/2013 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in EUR million) | **Demand** | **Less than 3 months** | **3 months to 1 year** | **1 to 5 years** | **Over 5 years** | **Undetermined maturity** | **Accrued interest** | **Fair value adjustment** | **Impairment** | **Total** |
| Cash and central banks | 1,745 | 0 | 0 | 0 | 0 | 0 | 0 | | | 1,745 |
| Financial assets at fair value through profit or loss | 0 | 5 | 5 | 276 | 1,223 | 0 | 1,215 | 15,623 | | 18,348 |
| *of which Trading derivatives* | | | | | | | *1,209* | *15,336* | | *16,546* |
| Hedging derivatives | | | | | | | 756 | 5,189 | | 5,945 |
| Financial assets available for sale | 793 | 831 | 2,054 | 7,877 | 16,072 | 239 | 497 | 932 | (70) | 29,224 |
| Interbank loans and advances | 710 | 612 | 1,498 | 2,998 | 2,431 | 0 | 44 | 518 | (5) | 8,807 |
| Customer loans and advances | 149 | 3,738 | 4,172 | 24,263 | 85,188 | 0 | 784 | 11,703 | (958) | 129,039 |
| Fair value revaluation of portfolio hedge | | | | | | | | 1,035 | | 1,035 |
| Financial assets held to maturity | 0 | 25 | 49 | 343 | 15 | 0 | 5 | | 0 | 437 |
| Accruals and other assets | 3 | 533 | 155 | 1 | 0 | 26,582 | 5 | 0 | (9) | 27,270 |
| *of which paid cash collateral* | | | | | | *26,537* | *5* | | | *26,542* |
| *Subtotal financial assets used to calculate the gap* | *3,400* | *5,744* | *7,934* | *35,758* | *104,929* | *26,821* | | | | |
| Non-financial assets | | | | | | 615 | | (1) | 0 | 614 |
| **TOTAL CONTINUING OPERATIONS** | **3,400** | **5,744** | **7,934** | **35,758** | **104,929** | **27,436** | **3,306** | **35,000** | **(1,043)** | **222,464** |
| Disposal groups held for sale | 47 | 60 | 18 | 0 | 0 | 347 | 0 | 0 | 0 | 472 |
| **TOTAL** | **3,447** | **5,804** | **7,952** | **35,758** | **104,929** | **27,783** | **3,306** | **35,000** | **(1,043)** | **222,936** |

The figures of 2013 have been restated to disclose paid cash collaterals in undetermined maturity

## 2. Analysis of liabilities excluding shareholders equity

| (in EUR million) | Demand | Less than 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Undeter-mined maturity | Accrued interest | Fair value adjust-ment | Total |
|---|---|---|---|---|---|---|---|---|---|
| | 31/12/2013 | | | | | | | | |
| Central banks | 0 | 6,459 | 651 | 25,364 | 1,331 | 0 | 469 | | 34,274 |
| Financial liabilities at fair value through profit and loss | 0 | 36 | 309 | 357 | 1,262 | 0 | 1,158 | 15,720 | 18,840 |
| *of which Trading derivatives* | | | | | | | *1,080* | *15,434* | *16,514* |
| Hedging derivatives | | | | | | | 1,460 | 20,805 | 22,265 |
| Interbank borrowings and deposits | 34 | 3,234 | 1,310 | 20,981 | 5,559 | 0 | 71 | 11 | 31,201 |
| Customer borrowings and deposits | 2,033 | 2,336 | 1,619 | 1,451 | 1,020 | 0 | 51 | 79 | 8,590 |
| Debt securities | 1 | 14,051 | 32,254 | 27,983 | 17,796 | 0 | 851 | 3,431 | 96,368 |
| Fair value revaluation of portfolio hedge | | | | | | | | 231 | 231 |
| Subordinated debts | 0 | 0 | 131 | 333 | 158 | 0 | 8 | 14 | 644 |
| Accruals and other liabilities | 22 | 328 | 208 | 30 | 96 | 5,301 | 3 | | 5,987 |
| *of which received cash collateral* | | | | | | *5,124* | *1* | | *5,124* |
| *Subtotal financial liabilities used to calculate the gap* | *2,090* | *26,443* | *36,481* | *76,499* | *27,222* | *5,301* | | | |
| Non-financial liabilities | | | | | | 454 | | | 454 |
| **TOTAL CONTINUING OPERATIONS** | **2,090** | **26,443** | **36,481** | **76,499** | **27,222** | **5,755** | **4,072** | **40,291** | **218,854** |
| Liabilities included in disposal groups held for sale | 0 | 51 | 47 | 0 | 0 | 25 | 0 | 0 | 123 |
| **TOTAL** | **2,090** | **26,494** | **36,528** | **76,499** | **27,222** | **5,780** | **4,072** | **40,291** | **218,977** |

The figures of 2013 have been restated in order to disclose received cash collaterals in undetermined maturity

| **Net liquidity gap as at 31/12/2013** (in EUR million) | Demand | Less than 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Undeter-mined maturity |
|---|---|---|---|---|---|---|
| Continuing operations | 1,310 | (20,699) | (28,547) | (40,741) | 77,707 | 21,520 |
| Disposal groups held for sale | 47 | 2 | 0 | 0 | 0 | 218 |

This table does not take into account the liquidity of the asset nor its eligibility for refinancing; some listed long-term assets may be sold or refinanced with central banks in case of need of liquidity.

### 1. Analysis of assets

| (in EUR million) | 31/12/2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Demand | Less than 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Undeter-mined maturity | Accrued interest | Fair value adjust-ment | Impair-ment | Total |
| Cash and central banks | 2,634 | 469 | 0 | 0 | 0 | 0 | 0 | | | 3,104 |
| Financial assets at fair value through profit or loss | 0 | 6 | 139 | 133 | 1,185 | 0 | 1,148 | 21,604 | | 24,215 |
| *of which Trading derivatives* | | | | | | | *1,142* | *21,258* | | *22,400* |
| Hedging derivatives | | | | | | | 677 | 7,697 | | 8,374 |
| Financial assets available for sale | 17 | 1,414 | 1,304 | 4,998 | 14,023 | 853 | 422 | 3,690 | (80) | 26,641 |
| Interbank loans and advances | 799 | 1,262 | 395 | 3,471 | 1,851 | 0 | 30 | 769 | (14) | 8,563 |
| Customer loans and advances | 38 | 2,960 | 5,109 | 21,322 | 85,233 | 46 | 795 | 20,606 | (798) | 135,311 |
| Fair value revaluation of portfolio hedge | | | | | | | | 1,910 | | 1,910 |
| Financial assets held to maturity | 0 | 3 | 100 | 200 | 0 | 0 | 2 | | 0 | 306 |
| Accruals and other assets | 6 | 381 | 134 | 0 | 673 | 37,063 | 0 | 0 | (2) | 38,256 |
| *of which paid cash collateral* | | | | | | *37,033* | *0* | | | *37,033* |
| *Subtotal financial assets used to calculate the gap* | *3,495* | *6,495* | *7,181* | *30,123* | *102,965* | *37,963* | | | | |
| Non-financial assets | | | | | | 442 | | (1) | 0 | 440 |
| **TOTAL** | **3,495** | **6,495** | **7,181** | **30,123** | **102,965** | **38,404** | **3,074** | **56,276** | **(894)** | **247,120** |

## 2. Analysis of liabilities excluding shareholders' equity

| (in EUR million) | 31/12/2014 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Demand** | **Less than 3 months** | **3 months to 1 year** | **1 to 5 years** | **Over 5 years** | **Undeter-mined maturity** | **Accrued interest** | **Fair value adjust-ment** | **Total** |
| Central banks | 0 | 33,505 | 0 | 0 | 0 | 0 | 340 | 0 | 33,845 |
| Financial liabilities at fair value through profit and loss | 0 | 10 | 309 | 171 | 1,222 | 0 | 1,078 | 22,941 | 25,731 |
| *of which Trading derivatives* | | | | | | | *1,055* | *22,455* | *23,509* |
| Hedging derivatives | | | | | | | 1,385 | 32,447 | 33,832 |
| Interbank borrowings and deposits | 103 | 10,000 | 1,882 | 24,691 | 7,847 | 0 | 67 | 14 | 44,604 |
| Customer borrowings and deposits | 2,164 | 1,842 | 2,107 | 883 | 871 | 0 | 31 | 59 | 7,958 |
| Debt securities | 1 | 16,169 | 18,243 | 30,592 | 18,295 | | 703 | 5,515 | 89,518 |
| Fair value revaluation of portfolio hedge | | | | | | | | 227 | 227 |
| Subordinated debts | 0 | 0 | 0 | 436 | 54 | 0 | 4 | 5 | 498 |
| Accruals and other liabilities | 11 | 848 | 39 | 30 | 63 | 6,280 | 1 | | 7,272 |
| *of which received cash collateral* | | | | | | *5,855* | *1* | | *5,856* |
| *Subtotal financial liabilities used to calculate the gap* | *2,279* | *62,375* | *22,581* | *56,804* | *28,351* | *6,280* | | | |
| Non-financial liabilities | | | | | | 506 | | | 506 |
| **TOTAL** | **2,279** | **62,375** | **22,581** | **56,804** | **28,351** | **6,786** | **3,609** | **61,207** | **243,992** |

| **Net liquidity gap as at 31/12/2014** (in EUR million) | **Demand** | **Less than 3 months** | **3 months to 1 year** | **1 to 5 years** | **Over 5 years** | **Undeter-mined maturity** |
|---|---|---|---|---|---|---|
| | 1,216 | (55,879) | (15,400) | (26,680) | 74,614 | 31,683 |

This table does not take into account the liquidity of the asset nor its eligibility for refinancing; some listed long-term assets may be sold or refinanced with central banks in case of need of liquidity.

### b. Steps taken to improve Dexia Group's liquidity

Steps taken to improve Dexia Group's liquidity are described in the Management Report, chapter "Information on capital and liquidity".

## 7.7. Currency risk

**Classification by original currency**

| (in EUR million) | 31/12/2013 EUR | Other EU currencies | US dollars | Other currencies | Total |
|---|---|---|---|---|---|
| Total assets | 156,772 | 21,951 | 29,550 | 14,663 | 222,936 |
| Total liabilities and shareholders' equity | 170,056 | 9,083 | 35,057 | 8,739 | 222,936 |
| **NET BALANCE SHEET POSITION** | **(13,284)** | **12,867** | **(5,507)** | **5,924** | **0** |

**Classification by original currency**

| (in EUR million) | 31/12/2014 EUR | Other EU currencies | US dollars | Other currencies | Total |
|---|---|---|---|---|---|
| Total assets | 169,197 | 26,708 | 35,105 | 16,111 | 247,120 |
| Total liabilities and shareholders' equity | 174,984 | 18,562 | 43,626 | 9,948 | 247,120 |
| **NET BALANCE SHEET POSITION** | **(5,788)** | **8,146** | **(8,521)** | **6,163** | **0** |

# 8. Segment and geographic reporting

### a. Segment reporting

Having completed its commercial entity disposal programme at the beginning of 2014 as required under the resolution plan, Dexia is now focused on managing its residual assets in run-off, protecting the interests of the Group's State shareholders and guarantors.
In line with the Group's profile and strategy, Dexia's performance is now shown at a consolidated level on the basis of a single division entitled "Management of activities in run-off", without specific allocation of funding and operating expenses by segment of activity.

This analytical presentation of performance is in line with Dexia's structure no longer consisting of homogenous operating units with their own decision-taking power in terms of resource allocation (funding and operating expenses). Consequently, operating charges must be considered globally and by geographic entity to ensure optimum management.

### b. Geographic reporting

| (in EUR million) | Belgium | France | Germany | Spain | Ireland | Italy | United States | Israel | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| As at 31 December 2013 | | | | | | | | | | |
| **NET BANKING INCOME** | **2** | **(188)** | **(55)** | **(2)** | **(185)** | **9** | **(85)** | **28** | **2** | **(474)** |
| As at 31 December 2014 | | | | | | | | | | |
| **NET BANKING INCOME** | **8** | **(287)** | **41** | **47** | **(85)** | **14** | **(25)** | **30** | **10** | **(247)** |

# Dexia SA
# Statutory auditor's report to the shareholders' meeting on the consolidated financial statements for the year ended 31 December 2014

To the shareholders

As required by law, we report to you in the context of our appointment as the company's statutory auditor. This report includes our report on the consolidated financial statements together with our report on other legal and regulatory requirements. These consolidated financial statements comprise the consolidated balance sheet as of 31 December 2014, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated cash flow statement for the year then ended, as well as the summary of significant accounting policies and other explanatory notes.

## Report on the consolidated financial statements – Unqualified opinion with emphasis of matter paragraph on the application of the valuation rules in going concern.

We have audited the consolidated financial statements of Dexia SA ("the company") and its subsidiaries (jointly "the group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium. The consolidated balance sheet shows total assets of 247,120 million EUR and the consolidated statement of income shows a consolidated loss (group share) for the year then ended of 606 million EUR.

### Board of directors' responsibility for the preparation of the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Statutory auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated financial statements.
We have obtained from the group's officials and the board of directors the explanations and information necessary for performing our audit.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Unqualified opinion

In our opinion, the consolidated financial statements of Dexia SA give a true and fair view of the group's net equity and financial position as of 31 December 2014, and of its results and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

## Emphasis of Matter Paragraph on the application of the valuation rules in going concern

Without modifying the above unqualified opinion, we draw your attention to note 1 of the notes to the consolidated financial statements which states that the consolidated financial statements of Dexia SA as of 31 December 2014 have been prepared using the going concern principle in accordance with the criteria of IAS 1.

The justification of the going concern assumption is supported by a revised business plan approved by the group's board of directors on 9 October 2014 and which is taking into account a.o. the following assumptions:

- The revised business plan is based on different underlying macroeconomic assumptions (including the expected evolution of interest rates and credit environment). These assumptions were reviewed within the framework of the revised business plan ratified by the board of directors on 9 October 2014 and based on the latest observable market conditions as well as the regulatory developments known at that date. 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 available for sale and for the valuation of derivatives. 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. A new update of the plan will be performed in the 2nd quarter 2015.
- The revised business plan assumes that the different entities maintain their banking licence. It also relies on the maintenance of the rating of Dexia Crédit Local SA
- The revised business plan relies on a robust funding program based on Dexia's ability to issue debt guaranteed by the Belgium, France and Luxembourg states and to raise secured funding.
- The revised business plan is also sensitive to 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 may not allow compliance with certain regulatory rations during its resolution process.

With respect to the realisation of the revised business plan, taking into account the numerous exogenous variables, uncertainties remain as of the date of this report.

The going concern assumption is only justified to the extent that the group succeeds in realizing its revised business plan based on the underlying assumptions described in note 1 of the notes to the consolidated financial statements. No adjustments have been recorded with respect to the valuation or the classification of certain balance sheet items, which would be required, should the group no longer be able to continue its operations.

## Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements.

As part of our mandate and in accordance with the Belgian standard complementary to the International Standards on Auditing applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we make the following additional statement, which does not modify the scope of our opinion on the consolidated financial statements:

- The directors' report on the consolidated financial statements includes the information required by law, is consistent with the consolidated financial statements and is free from material inconsistencies with the information that we became aware of during the performance of our mandate.

Diegem, 1 April 2015

The statutory auditor

DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises
BV o.v.v.e. CVBA / SC s.f.d. SCRL
Represented by Yves Dehogne

# Annual financial statements
## Financial statements as at 31 December 2014

# Balance sheet
## (before income appropriation)

| **ASSETS** (in EUR) | | 31/12/13 | 31/12/14 |
|---|---|---|---|
| **FIXED ASSETS** | | **2,515,864,506** | **2,096,841,349** |
| II. | Intangible fixed assets | 425,084 | 660,096 |
| III. | Tangible fixed assets | 1,367,105 | 930,304 |
| | B. Plant, machinery and equipment | 40,272 | 25,921 |
| | C. Furniture and vehicles | 549,256 | 426,758 |
| | E. Other tangible fixed assets | 777,577 | 477,625 |
| IV. | Financial fixed assets | 2,514,072,317 | 2,095,250,949 |
| | A. Affiliated enterprises | 2,511,862,703 | 2,093,083,258 |
| | 1. Participating interests | 2,511,862,703 | 2,093,083,258 |
| | C. Other financial assets | 2,209,614 | 2,167,691 |
| | 1. Shares | 2,001,000 | 2,001,000 |
| | 2. Amounts receivable and cash guarantees | 208,614 | 166,691 |
| **CURRENT ASSETS** | | **1,216,928,509** | **1,025,541,750** |
| V. | Amounts receivable after more than one year | 137,914,634 | 143,026,913 |
| | B. Other amounts receivable | 137,914,634 | 143,026,913 |
| VII. | Amounts receivable within one year | 190,418,303 | 10,801,400 |
| | A. Trade debtors | 10,898,145 | 4,661,128 |
| | B. Other amounts receivable | 179,520,158 | 6,140,272 |
| VIII. | Current investments | 852,158,406 | 854,930,760 |
| | B. Other investments and deposits | 852,158,406 | 854,930,760 |
| IX. | Cash at bank and in hand | 32,819,144 | 15,057,793 |
| X. | Deferred charges and accrued income | 3,618,022 | 1,724,884 |
| **TOTAL ASSETS** | | **3,732,793,015** | **3,122,383,099** |

| SHAREHOLDERS' EQUITY AND LIABILITIES (in EUR) | | 31/12/13 | 31/12/14 |
|---|---|---|---|
| **EQUITY** | | **2,884,899,727** | **2,912,669,832** |
| I. | Capital | 500,000,000 | 500,000,000 |
| | A. Issued capital | 500,000,000 | 500,000,000 |
| II. | Share premium account | 1,900,000,000 | 1,900,000,000 |
| IV. | Reserves | 322,880,172 | 322,880,172 |
| | A. Legal reserves | 50,000,000 | 50,000,000 |
| | D. Available reserves | 272,880,172 | 272,880,172 |
| V. | Retained earnings | - | 162,019,555 |
| V. bis. | Profit for the year (1) | 162,019,555 | 27,770,105 |
| | | | |
| **PROVISIONS AND DEFERRED TAXES** | | **95,171,474** | **58,504,901** |
| VII. | A. Provisions for liabilities and charges | 95,171,474 | 58,504,901 |
| | 4. Other liabilities and charges | 95,171,474 | 58,504,901 |
| **AMOUNTS PAYABLE** | | **752,721,814** | **151,208,366** |
| VIII. | Amounts payable after more than one year | 454,954,623 | 39,788,000 |
| | A. Financial liabilities | 454,954,623 | 39,788,000 |
| | 1. Subordinated loans | 39,788,000 | 39,788,000 |
| | 4. Credit institutions | 415,166,623 | - |
| IX. | Amounts payable within one year | 297,136,535 | 110,920,040 |
| | B. Financial liabilities | 1,909 | 96,655 |
| | 1. Credit institutions | 1,909 | 96,655 |
| | C. Trade debts | 8,979,935 | 6,468,985 |
| | 1. Suppliers | 8,979,935 | 6,468,985 |
| | E. Taxes, remuneration and social security | 6,997,452 | 6,388,281 |
| | 1. Taxes | 3,481,441 | 3,584,690 |
| | 2. Remuneration and social security | 3,516,011 | 2,803,591 |
| | F. Other amounts payable | 281,157,239 | 97,966,119 |
| X. | Accrued charges and deferred income | 630,656 | 500,326 |
| **TOTAL LIABILITIES** | | **3,732,793,015** | **3,122,383,099** |

*(1) See note 1 to the financial statements.*

# Off-balance-sheet items

| (in EUR) | 31/12/13 | 31/12/14 |
|---|---|---|
| **Miscellaneous rights and commitments:** | | |
| Guarantee given by the French, Belgian and Luxemburg States (1) | PM | - |
| Guarantee given by the French and Belgian States for the Financial Products portfolio (1) | PM | PM |
| Guarantees given by third parties on behalf of the company | 302,973 | 302,973 |
| Personal guarantees given on behalf of third parties | 7,500 | 7,500 |
| Real guarantees given on own assets | 150,322,223 | 150,323,723 |
| Commitment to issue shares linked to stock options (excercise price) | 797,259,659 | 671,807,946 |
| Commitment to issue shares to the Belgian and French States | PM | PM |
| Commitment towards Dexia Bank Nederland NV | PM | PM |
| Commitment to sell Dexia Asset Management Lux | 380,000,000 | - |
| Commitment others (2) | PM | PM |

*(1) See note 4.4.c. of the consolidated financial Statements.*
*(2) See note 4.4. Off-balance-sheet items - Commitments*

# Income statement

| (in EUR) | | 31/12/2013 | 31/12/2014 |
|---|---|---|---|
| I. | Operating income | 15,586,574 | 12,521,603 |
| | D. Other operating income | 15,586,574 | 12,521,603 |
| II. | Operating charges | (50,183,450) | (41,588,707) |
| | B. Services and other goods | (31,950,663) | (28,177,272) |
| | C. Remuneration, social security costs and pensions | (14,474,832) | (12,203,967) |
| | D. Depreciation of and amounts written off on formation expenses, intangible and tangible fixed assets | (773,810) | (735,459) |
| | F. Increase (-); decrease (+) in provisions for liabilities and charges | (150,838) | (150,838) |
| | G. Other operating charges | (2,833,307) | (321,171) |
| III. | Operating loss (-) | (34,596,876) | (29,067,104) |
| IV. | Financial income | 212,574,367 | 10,687,359 |
| | A. Income from financial fixed assets | 200,000,000 | 0 |
| | B. Income from current assets | 9,374,720 | 7,673,854 |
| | C. Other financial income | 3,199,647 | 3,013,505 |
| V. | Financial charges | (6,489,910) | (57,219) |
| | A. Debt charges | (9,470,157) | (409,691) |
| | B. Amounts written off on current assets other than stocks, current orders and receivables: increase (-); decrease (+) | 3,503,186 | 553,250 |
| | C. Other financial charges | (522,939) | (200,778) |
| VI. | Current profit (+) / loss (-) before taxes | 171,487,581 | (18,436,964) |
| VII. | Exceptional income | 28,353,068 | 43,897,673 |
| | B. Adjustments to amounts written off financial fixed assets | 0 | 10,000,000 |
| | C. Adjustments to provisions for extraordinary liabilities and charges | 2,495,193 | 25,034,498 |
| | D. Gains on disposal of fixed assets | 19,915,937 | 420,556 |
| | E. Other exceptional income | 5,941,938 | 8,442,619 |
| VIII. | Exceptional charges | (43,675,892) | (3,037,220) |
| | A. Exceptional depreciation of and exceptional amounts written off on formation expenses, intangible and tangible fixed assets | (67,448) | 0 |
| | C. Provisions for exceptional liabilities and charges: utilisation (+) | 7,814,015 | 11,782,913 |
| | D. Loss on disposal of fixed assets | (246,169) | (1) |
| | E. Other exceptional charges | (51,176,290) | (14,820,132) |
| IX. | Profit for the period before taxes | 156,164,757 | 22,423,489 |
| X. | Income taxes | 5,854,798 | 5,346,616 |
| | A. Income taxes | (49,476) | (672,259) |
| | B. Adjustment of income taxes and write-back of tax provisions | 5,904,274 | 6,018,875 |
| XI. | Profit for the period | 162,019,555 | 27,770,105 |
| XIII. | Profit to be appropriated | 162,019,555 | 27,770,105 |
| | | | |
| | Result brought forward of the previous period | 0 | 162,019,555 |
| | Profit for the period to be appropriated | 162,019,555 | 27,770,105 |
| **PROFIT TO BE APPROPRIATED** | | **162,019,555** | **189,789,660** |

# Notes to the annual financial statements

## 1. Presentation of the financial statements

Dexia presents its financial statements before appropriation. The 2014 financial year closed with a profit of EUR 27.8 million. The profit carried over from the previous period is EUR 162 million. As a result, the total profit to be appropriated is EUR 189.8 million.

## 2. Annual financial statements and chart of accounts

Dexia, a financial firm, is a company governed by Belgian law whose financial instruments listed on Euronext Brussels, Euronext Paris and on the Luxembourg Stock Exchange are authorized for trading in the regulated Belgian market. Dexia is therefore subject to the obligation to publish yearly financial statements as prescribed by the Belgian Company Code and its decree of application dated 30 January 2001.
The chart of accounts conforms in its contents, presentation, and numbering with the chart of accounts described in the Royal Decree of 12 September 1983. The items provided for in the accounting plan that do not apply to Dexia have been excluded.
The financial statements are presented in EUR.

## 3. Accounting policies

### 3.1. General policies

#### 3.1.1. LEGISLATION

The accounting policies are in conformity with the Royal Decree of 30 January 2001, in application of the Belgian Company Code. If legislation allows options or authorises a waiver, the accounting policies hereafter shall mention the option chosen or whether such a waiver has been applied.

#### 3.1.2. FOREIGN CURRENCY TRANSLATION INTO EUR

Monetary assets, liabilities, rights and commitments denominated in foreign currencies are translated into EUR at the last day average year-end exchange rate.
Non-monetary items are translated into EUR based at the exchange rate ruling in effect on the transaction date.
Foreign currency income and expense are translated into EUR at the exchange rate ruling in effect on the date on which the income or expense is recognised in the income statement.

### 3.2. Assets

#### 3.2.1. FORMATION EXPENSES (ITEM I.)

As from the bookkeeping year 2012, all formation expenses are booked into charges for 100% during the period in which they are incurred.

#### 3.2.2. INTANGIBLE FIXED ASSETS (ITEM II.)

License acquisitions, external costs linked to software definition and to the development of the Dexia Group website are recorded as intangible fixed assets when the acquisition price is at least equal to EUR 495.79 per item or, when delivery is broken down into partial shipments representing less than EUR 495.79 each but the total delivery is at least EUR 495.79.
Intangible fixed assets are depreciated over a maximum of five years.
Furthermore, the internal costs related to the development of software and the website are entirely charged in the financial year in which they are exposed.
Exceptional amortisations will be recorded in order to align the accounting value of the intangible fixed assets to their utilisation value for the company to take into account their alteration or changes in economic or technological circumstances. Exceptional depreciations are reversed if they are no longer justified.

#### 3.2.3. TANGIBLE FIXED ASSETS (ITEM III.)

If necessary, exceptional depreciations will be recorded in order to align the accounting value of fixed assets to their utilisation value for the company to take into account their alteration or changes in economic or technological circumstances. Exceptional depreciations are reversed if they are no longer justified.

#### 3.2.4. FINANCIAL ASSETS (ITEM IV.)

Participating interests and shares are recorded on the balance sheet at their acquisition cost or contribution cost. Accessory acquisition fees are charged to the period of acquisition.
Impairments are recorded in the case of capital losses or lasting depreciation. They are determined by reference to the financial position, profitability, and prospects of the company in which shares and/or equity interests are held.
Participating interests and shares may also be revalued. It is therefore required that their value, determined on the basis of their usefulness to the company, presents a certain and lasting surplus in relation to their book value.
Debts appearing under financial fixed assets are valued according to the same principles as debts at more than one year and up to one year.

#### 3.2.5. AMOUNTS RECEIVABLE AFTER MORETHAN ONE YEAR AND WITHIN ONE YEAR (ITEMS V. AND VII.)

Receivables are stated on the balance sheet at their nominal value. Allowances are booked to cover any risk of non-recovery.

#### 3.2.6. SHORT-TERM INVESTMENTS AND CASH ASSETS (ITEMS VIII. AND IX.)

Cash is stated at nominal value.
Securities are stated at acquisition cost, while accessorial acquisition costs are recorded in the income statement of the year in which they are incurred.
At balance sheet date, impairments are recorded on short-term investments and liquid assets if their realisation value is lower than their book value.
Additional impairments are recorded on these assets in order to reflect either a change in their realisation or market value, or the risks inherent in the nature of the products concerned or the activities carried out.
Nevertheless, own shares acquired to be cancelled are valued at their acquisition price as they may only be destroyed with the approval of the Shareholders' Meeting.

### 3.3. Liabilities

#### 3.3.1. REVALUATION SURPLUSES (ITEM III.)

Shares and participating interests recorded as long-term investments may be revaluated in the case of a certain, permanent increase in their fair value for the company compared with their book value.
Revaluation surpluses are maintained under this heading until the realisation of the assets concerned or their inclusion in capital.

#### 3.3.2. PROVISIONS FOR LIABILITIES AND CHARGES (ITEM VII.)

At balance-sheet date, the Board of Directors, acting with prudence, sincerity and good faith, examines the provisions to be built up in order to cover all possible risks or losses that might have occurred during the financial year or previous financial years.
Provisions relating to previous financial years are regularly reviewed and reversed if they have become irrelevant.

#### 3.3.3. DEBTS OF OVER ONE YEAR AND UP TO ONE YEAR (ITEMS VIII. AND IX.)

Debts are stated for their nominal value on the balance sheet.

### 3.4. Off-balance-sheet items

Off-balance-sheet items are recorded for the nominal value of the rights and commitments mentioned in the agreement or for their assessed value.

## 4. Notes to the annual financial statements

Dexia is a cross-border holding company which has two permanent establishments in Paris and Luxembourg. From an accounting point of view, the financial statements of Dexia include the accounts of Brussels, the Dexia head office, and those of the two permanent establishments in Paris and Luxembourg.

#### CONTINUITY OF OPERATIONS (GOING CONCERN)

The statutory and consolidated financial statements of Dexia as at 31 December 2014 were prepared in accordance with the accounting rules applicable to a going concern. The assumptions detailed below were the basis of the business plan underlying the Dexia Group resolution plan and were already explained in previous accounting closures.

- 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 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 ratings are also assumed to remain at current levels.
- It relies, moreover, on a robust funding programme based on Dexia's ability to issue debt guaranteed by 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 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 may not allow 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 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.

## 4.1. Balance sheet total (before income appropriation)

The balance sheet total is EUR 3,122.4 million as at 31 December 2014 against EUR 3,732.8 million as at 31 December 2013, a decrease of 16%. This decrease mainly consists of the sale of **Dexia Asset Management Luxembourg SA** (DAM LU) and **Popular Banca Privada** (PBP) in the beginning of 2014, which resulted in a decrease in the participations of Dexia Group of EUR 418.8 million, as well as the settlement of a fiscal claim of EUR 173.3 million, for which there was a corresponding debt of the same amount towards DCL.

## 4.2. Assets

### FIXED ASSETS

#### 4.2.1. FORMATION EXPENSES

As from 2012, all expenses related to capital increases are directly booked in the income statement in the bookkeeping year wherein they were made.

#### 4.2.2. INTANGIBLE FIXED ASSETS

Intangible fixed assets totalled EUR 0.7 million and concerned the acquisition and the development of software as well as external costs related to the development of the Dexia website. These intangible fixed assets are depreciated on a straight-line method over a period of three years.

#### 4.2.3. TANGIBLE FIXED ASSETS

Tangible fixed assets which have a net book value of EUR 0.9 million have a gross acquisition value of EUR 7.8 million. Property, plant and equipment contribute a gross acquisition value of EUR 1.5 million and are depreciated on a straight-line basis over a period of ten years.

Office, IT and audio-visual equipment represent a gross investment of EUR 4.7 million and is depreciated on a straight-line basis at a rate of 25%.
Vehicles acquired during the year 2013 (EUR 0.03 million) are linearly depreciated at a rate of 20%.
Other tangible fixed assets involving the installation of the leased premises, notably the premises located in the Bastion Tower in Brussels (gross acquisition value of EUR 1.6 million), are depreciated on a straight-line basis over the period of the lease contracts.

#### 4.2.4. FINANCIAL FIXED ASSETS

### Participation interests in affiliated companies

The item "Participating Interest" representing EUR 2,511.9 million as at 31 December 2013 is EUR 2,093.1 million as at 31 December 2014.
It includes the following equity interests:
- EUR 2 000.0 million: 100% of **Dexia Crédit Local** (DCL), Paris, France.

The Dexia's share in DCL was valued at EUR 5 billion at 31 December 2011. This valuation was based on future positive cash flows forecasts for DCL which were, in turn, based upon the assumptions established by the Dexia Group in the context of the orderly resolution plan.
Given the increase in the Dexia Group's funding costs, the assumptions will not be materialised and the participation in DCL was subject to an evaluation which resulted in an impairment of EUR 5 billion on 30 September 2012.
On 31 December 2012, Dexia increased the capital of its subsidiary Dexia Crédit Local for an amount of EUR 2,000 million through a cash contribution. At the end of 2014, a total impairment of EUR 14,953.8 million, compared to an acquisition value of EUR 16,953.8 million, was recorded on DCL.
- EUR 93.0 million: 100% of **Dexia Nederland BV**, Amsterdam, The Netherlands.
- PM : 100% of **Dexiarail SA**, Paris, France.

After having signed a sale agreement on 24 September 2013 and having obtained all regulatory authorisations, Dexia finalised on 3 February 2014 the sale of 100% of its participation in **Dexia Asset Management Luxembourg SA** (DAM LU), to New York Life Investments, for a fixed price of EUR 380 million. This resulted in a reversal of the impairment amounting to EUR 10 million of the originally anticipated EUR 130 million impairment on this participation.
On 19 February 2014, Dexia SA finalised the sale of its participation of 40% in **Popular Banca Privada** (PBP), Madrid, Spain, to Banco Popular Español for a fixed price of EUR 49.2 million, realising a gain of EUR 0.4 million.

**DCL investissements SA**, Paris, France, was sold to DCL on 17 November 2014, preceding a universal transfer of assets to DCL, its sole shareholder, on 24 November 2014.

Dexia thus completed the divestment program of its main commercial franchises, initiated at the end of 2011 in the context of its orderly resolution plan.

### Other financial assets

**Shares and participations**

In order to cover the responsibilities and risks incurred by its directors and officers, during 2012 Dexia has resorted to an alternative structure of insurance coverage including the creation of a cell (Protected Cell Company (PCC)) with a capital of EUR 2 million in an insurance company White Rock Insurance Ltd.

**Receivables and cash guarantees**

Dexia paid EUR 0.2 million by way of rental guarantee for the offices located in the Dexia Tower – CBX.

## CURRENT ASSETS

### 4.2.5. RECEIVABLES AFTER MORE THAN ONE YEAR

### Other amounts receivables

Since 2002, the permanent establishment of Dexia in Paris has headed the tax consolidation group in France. As at 31 December 2014, the Group includes the following companies:

- CBX.GEST
- CBXIA1
- CBXIA2
- DCL Evolution
- Dexia CLF Banque
- Dexia CLF Régions Bail
- Dexia Crédit Local
- Dexia Établissement Stable Paris
- Dexia Flobail
- Dexiarail
- Genebus Lease

Given that the commitments made by Dexia Crédit Local and its subsidiaries allow Dexia, through its permanent establishment, to lock in temporary tax savings, it was agreed that the resources produced by the permanent establishment would be lent to the tax consolidation Group's subsidiaries that made it possible to realise the tax savings through advances called "tax deferred advances".
The total of tax deferred advances granted by the permanent establishment with contractual maturity after 31 December 2015 amounted to EUR 79.7 million on 31 December 2014.

Dexia Funding Luxembourg (DFL), a subsidiary held for 100% by Dexia, had issued fixed rate / floating rate perpetual non-cumulative securities in 2006 for an amount of EUR 500 million, guaranteed by Dexia (DFL securities). The profit from the issuance of these DFL securities were lent to Dexia Bank Belgium SA (now Belfius Bank) under a subordinated loan. Following the sale of Dexia Bank Belgium (DBB) on 20 October 2011 to the Federal Holding and Investment Company, DBB has launched two public offers for DFL securities and reimbursed the subordinated loan for an amount equal to the nominal value of the DFL securities obtained under the offer and acquired by DBB. Dexia has agreed to buy from DBB the DFL securities obtained under the offer. These buy-back have allowed to reduce the exposure of the Group on DBB. Following the merger by absorption of DFL by Dexia on 9 May 2012, the DFL securities acquired from DBB for a total amount of EUR 460.2 million have been cancelled. On 31 December 2014, there remains in the accounts of Dexia, an amount of EUR 39.8 million, under the form of a senior loan to Belfius Bank, representing the remaining DFL securities which remain outstanding.

In order to ensure the operational continuity of Dexia and carry out the resolution plan of the Group, a trust Hyperion was founded on 29 November 2012 with the objective to pay, on behalf of Dexia, severance pay as provided for by the collective agreement on leaving conditions concluded on 21 December 2011, to the Dexia staff members who accepted to stay at least until October 2014. A loan was granted to Hyperion to finance its activities, the outstanding amount of the loan is EUR 23.5 million.

### 4.2.6. AMOUNTS RECEIVABLE WITHIN ONE YEAR

### Trade debtors

The item "Trade debtors" covers commercial receivables to be charged to subsidiaries from the Group (EUR 4.5 million), also receivables from outside the Group (EUR 0.2 million) for the balance.

### Other amounts receivable

The permanent establishment of Dexia in Paris is the head of the tax consolidation group in France. It is, as a result, solely liable for corporation tax from the Group in relation to its fiscal integration, given that taxes due from companies included in the tax consolidation must be paid to the permanent establishment. On 31 December 2014, the permanent establishment in Paris had a receivable of EUR 2.3 million to the French tax authorities as the lead company for French tax consolidation for the years 2009 to 2013. The receivable of EUR 173.3 million, due from the tax authorities, which was the result of the allocation of losses starting in 2008 to profits from previous years, has been reimbursed by the tax authorities. The counterparty to the carry back was a debt to Dexia Crédit Local, which has now been cleared, as described in the addendum of the tax consolidation agreement.

Furthermore, as from 1 January 2007 until 31 December 2011, the permanent establishment of Dexia in Luxembourg was the head of the Group within the scope of tax integration in Luxembourg. As a consequence, it alone was also liable for corporation tax and local commercial tax on Group companies integrated in Luxembourg.
The companies forming part of the Group fiscally integrated in Luxembourg were:

- BIL Ré SA
- Dexia, Luxembourg Branch
- Dexia Participation Luxembourg SA
- Experta Corporate and Trust Services SA.

Also, as at 31 December 2014, the permanent establishment in Luxembourg still has a claim of EUR 2.7 million on the companies which were included in the tax consolidation in Luxembourg, which corresponds to the tax due from those companies on their share of the consolidated tax result.

The head office has to recover a receivable relating to withholding tax from the tax authorities (EUR 0.1 million), a VAT receivable from the VAT administration (EUR 0.1 million) and a receivable from Hyperion of EUR 0.5 million.

The senior loan, initially granted by Dexia Funding Luxembourg (DFL) to Belfius Bank, included in the assets of Dexia following the merger between Dexia and DFL, gives rise to an interest receivable of EUR 0.3 million as at 31 December 2014. The balance of other short-term receivables consists of miscellaneous receivables (EUR 0.1 million).

#### 4.2.7. CURRENT INVESTMENTS

**Other investments and deposits**

Cash surpluses of Dexia were deposited at short term with DCL (EUR 710 million).
In addition, Dexia holds securities for which the acquisition price is EUR 144.9 million, and which were pledged to the insurance company White Rock Insurance PCC Ltd.

#### 4.2.8. CASH AT BANK AND IN HAND

Available cash at banks and in hand totalled EUR 15.1 million.

#### 4.2.9. DEFERRED CHARGES AND ACCRUED INCOME

Deferred charges totalled EUR 1.6 million and included insurance (EUR 0.7 million) and also other general expenses (EUR 0.9 million).
The accrued income totalled EUR 0.1 million consists of interests on current investments and tax deferred advances.

## 4.3. Shareholders' equity and liabilities

### SHAREHOLDERS' EQUITY

As at 31 December 2014, the holding company's shareholders' equity, including the 2014 net result before profit appropriation totalled EUR 2,912.7 million and is composed of the following items:

#### 4.3.1. CAPITAL

The subscribed capital as at 31 December 2014 amounts to EUR 500 million.

As at 31 December 2014, the subscribed capital remains represented by 1,948,984,474 class A shares and 28,947,368,421 class B shares of which 740,224 bearer shares, 1,672,354,826 dematerialised shares and 29,223,257,845 registered shares. (cfr. Note 4.8. to the consolidated financial statements)

Following the adjustments in the Belgian legislation, all dividends that were attributed or paid after 1 January 2013 can no longer benefit from a reduced withholding tax of 15%. Euronext has therefore withdrawn the VVPR strips from the quotation at the end of 2012 and, during the extraordinary shareholders' meeting of 14 May 2014, the 684,333,504 VVPR strips of Dexia still in circulation were cancelled.

#### 4.3.2. SHARE PREMIUM ACCOUNT

The previous capital increases generally involved an issue premium so the total of these premiums amount to EUR 1,900 million as at 31 December 2014.

#### 4.3.3. RESERVES AND RETAINED EARNINGS

The item "Reserves" includes the legal reserves (EUR 50 million) and an available reserve amounting to EUR 272.9 million.

The profit of the year 2013 amounted to EUR 162 million and has been allocated to profit carried forward following the general shareholders' meeting of 14 May 2014.

#### 4.3.4. NET RESULT FOR THE YEAR

The profit for 2014 is EUR 27.8 million. This profit arises from the financial results (EUR +10.6 million), exceptional results (EUR + 40.9 million) and net tax income (EUR +5.3 million) from which the holding company's net operating expenses are deducted (EUR -29 million).

### PROVISIONS AND DEFERRED TAXES

#### 4.3.5. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Succeeding Dexia Crédit Local at the head of the tax consolidation group in France on 1 January 2002, Dexia, through its permanent establishment, assumed vis-à-vis the former head of the tax consolidation group commitments initially subscribed by Dexia Crédit Local within the context of tax leverage operations carried out in France with the approval of French tax authorities. Since then, new operations for the purpose of fiscal leverage were carried out by Dexia Credit Local, housed in subsidiaries of the consolidated tax group. These operations have as implications, for the financial year 2014, realisation of tax savings for EUR 0.2 million and a provision for the same amount. In total, these commitments amounted to EUR 1 million as at 31 December 2014.

Concerning the provisions of the guarantees granted on the sale of subsidiaries that were part of the Group on 31 December 2013 (EUR 68.4 million), there remains an amount of EUR 33 million in the accounts that relates to its former subsidiary Dexia Holdings Inc., which was sold to Dexia Crédit Local (Please refer to the section "Litigations" of the chapter "Risk Management" page 29). The complementary provision of EUR 10.4 million booked in 2013, related to the sale of other subsidiaries, was fully used in 2014.

The announcement of the dismantling of the Group in October 2011 resulted in an exceptional provision of EUR 55.5 million to cover the costs of severance payments. This provision still amounted to EUR 24.9 million on 31 December 2013 and was used for the amount of EUR 1.4 million, resulting in EUR 23.5 million as at 31 December 2014.

The provision of EUR 1 million set up in 2013 in the context of the social procedure was fully used in 2014.
Moreover, a new provision was set up in 2014 to cover costs incurred by the restructuration of the Group.

Taking into account the previous, the balance of provisions for other liabilities and charges at 31 December 2014 amounts to EUR 58.5 million compared to EUR 95.2 million at 31 December 2013.

## LIABILITIES

### 4.3.6. AMOUNTS PAYABLE WITHIN MORE THAN ONE YEAR

#### Subordinated debt

As stated in item 4.2.5., Dexia Funding Luxembourg (DFL), a subsidiary held for 100% by Dexia, had issued fixed rate / floating rate perpetual non-cumulative securities in 2006 for an amount of EUR 500 million, guaranteed by Dexia (DFL securities). The proceeds from the issuance of these DFL securities were lent to Dexia Bank Belgium (now Belfius Bank) as part of a subordinated loan. Following the sale of Dexia Bank Belgium (DBB) on 20 October 2011 to the Federal Holding and Investment Company, DBB has launched two public offers for DFL securities and Dexia has agreed to buy from DBB the DFL securities obtained under the offer. Following the merger by absorption of DFL by Dexia, approved by extraordinary shareholders' meeting of 9 May 2012, the DFL securities bought from DBB for a total amount of EUR 460.2 million have been cancelled by Dexia. The securities which have not been offered by their owners amount to EUR 39.8 million at 31 December 2014, and remain in the accounts of Dexia.

#### Credit institutions

The cash earned by the sale of DAM LU and PBP in the beginning of 2014 allowed Dexia SA to reimburse its loan contract of EUR 415.2 million with DCL, which would have matured on 31 December 2017.

### 4.3.7. AMOUNTS PAYABLE WITHIN ONE YEAR

#### Financial liabilities due to credit institutions

These debts are related to overdrafts on current accounts (EUR 0.1 million).

#### Trade liabilities

Suppliers' invoices not yet paid amount to EUR 5.5 million, invoices to be received EUR 1 million. Among trade liabilities are invoices for intercompany services for an amount of EUR 0.5 million.

#### Taxes, remuneration and social security

This item includes:

- Taxes on communities, commercial municipal tax and wealth tax payable by DPL and DFL as these two subsidiaries were absorbed by Dexia on 9 May 2012 (EUR 1 million);
- the professional withholding tax and other taxes (EUR 2.6 million);
- liabilities for remuneration and social contributions (EUR 2.8 million).

#### Other amounts payable

As mentioned, the permanent establishment of Dexia in Paris is the head of the tax consolidation group in France. The permanent establishment is therefore solely liable to the French tax authorities for the corporate tax by the tax group in France.

For the subsidiaries, membership in the tax consolidation group is neutral with respect to the tax situation they would be subject to if there was no consolidation. In fact, subsidiary companies must pay the corporate tax to the permanent establishment of Dexia in Paris. The advances paid by subsidiaries in 2014 were above the estimated tax they owed the parent company (EUR 1.4 million). Moreover, concerning the financial years 2009 to 2013, the permanent establishment owed to its subsidiaries tax credits of a total of EUR 2.2 million.

The balance of dividends remaining to be paid for previous financial years is EUR 94.4 million.

### 4.3.8. ACCRUED CHARGES AND DEFERRED INCOME

This item consists exclusively of expenses to be accrued as follows:

- Accrued rent charges (EUR 0.5 million).

## 4.4. Off-balance-sheet items – commitments

Dexia has significant commitments that are recorded off-balance-sheet:

**4.4.1.** On 2 November 2006, Dexia issued a subordinated guarantee within the context of a subordinated "hybrid Tier 1" issue by Dexia Funding Luxembourg SA (DFL), a 100% subsidiary of Dexia (perpetual non-cumulative securities at a guaranteed fixed/floating rate, for a global amount of EUR 500 million). This subordinated guarantee was issued in favour of the security holders who subscribed to the said securities and cover the payment by DFL of (i) any coupon which has not been waived in accordance with the issue conditions and (ii) the redemption price in the case of liquidation or insolvency of DFL (or similar situations) or (iii) the redemption price in the case of purchase in accordance with the issue conditions. Following the merger of DFL and Dexia at 9 May 2012, the guarantee has automatically expired (Dexia becomes the issuer).

**4.4.2.** As at 31 December 2014, the number of options attributed to staff and management and not yet exercised stood at 42 088 083. Taking exercise prices into account, this operation generates an off-balance-sheet of EUR 671.8 million. In order to protect warrant holders against adverse economic consequences arising from the issue of bonus shares following the decisions of the extraordinary shareholder's meetings of 12 May 2010 and 11 May 2011, the exercise price for the warrants has been reduced and the number of warrants increased in accordance with an adjustment ratio determined in line with the Corporate Action Policy of Euronext NYSE Life. However, it should be noted that the value of the warrants is zero, given the quotation of Dexia's share.

**4.4.3.** On 18 May 2005, Dexia purchased 100% of the shares of Dexia Nederland Holding NV (today called Dexia Nederland BV) from Dexia Financière SA based on a valuation made of these at EUR 93 million subject to a return to better fortune clause granted to BIL and Dexia Bank, also shareholders of Dexia Financière, for the case where the value of Dexia Nederland Holding, including Dexia Bank Nederland (DBnl), should be revised upwards following decisions favourable to DBnl.

**4.4.4.** On 5 December 2002, Dexia committed to its subsidiary Dexia Bank Nederland NV, and to each of the entities resulting from the split-up of Dexia Bank Nederland, excluding any other entity, to ensure that Dexia Bank Nederland or the entities are at any time, in a position to meet their commitments to third parties and to continue their activities, including maintenance of their relationships with account holders and other clients; in particular, the aim of this undertaking

was to prevent third parties being prejudiced by the demerger of Dexia Bank Nederland. The amendment or withdrawal of this undertaking was subject to prior agreement of DNB (De Nederlandsche Bank). The sale of Kempen & Co NV to a group of financial investors and management was finalised on 15 November 2004. Within the context of this sale, Dexia reconfirmed by letter dated the same day its commitment towards Dexia Bank Nederland, which remains a 100% subsidiary of Dexia to the exclusion of any other entity.
In addition to the usual guarantees given to purchasers to which Dexia is also bound, Dexia will indemnify Kempen & Co against the risks relating to share leasing contracts sold by Dexia Bank Nederland NV, formerly Labouchere, and committed to compensate Kempen & Co for damage resulting from a limited and identified number of elements.

#### 4.4.5. TRANSACTIONS WITH THE BELGIAN, FRENCH AND LUXEMBOURG STATES

See note 4.4.c. “Transactions with the Belgian, French and Luxembourg states” to the consolidated financial statements.

#### 4.4.6. LEASE GUARANTEES

The transfer of the registered office of Dexia to the Bastion Tower, Place du Champ de Mars 5, B-1050 Brussels required the deposit of an unconditional guarantee payable on first demand of EUR 0.3 million in favour of the owner of the premises.

#### 4.4.7. REAL GUARANTEES ON OWN FUNDS

In order to cover its commitments, Dexia has pledged bonds which it holds in its treasury portfolio (EUR 144.9 million) to White Rock Insurance Company PCC Ltd, as well as cash collateral placed on an account for an amount of EUR 150 million. Otherwise cash frozen on ad hoc accounts is given as surety to Belfius Bank and third parties for lease guarantees (EUR 0.3 million).

#### 4.4.8. GUARANTEE GIVEN BY DEXIA SA/NV TO DEXIA CREDIT LOCAL S.A. (« DCL ») WITHIN THE FRAMEWORK OF THE SALE OF DHI TO DCL

On 13 March 2014, Dexia SA has made an irrevocable commitment to DCL to compensate the latter for any amounts of damages, interests and/or costs that may be incurred by DCL in relation to the investigations that are ongoing in the United States with respect to Guaranteed Investment Contracts concluded with issuers of American municipal bonds.

#### 4.4.9. LITIGATIONS

See chapter Risk management – page 29 – in the Management Report.

## 4.5. Income statement

#### 4.5.1. OPERATING RESULT

**Other operating income** (EUR +12.5 million) includes the services provided by Dexia in 2014 by the teams of the holding to other entities of the Group in the context of the steering mission of the departments to the new dimension of the Dexia Group (EUR +11.5 million). Also included in this item is the recovery of costs from Group companies, the insurance reimbursements, the repayment of a tax, as well as structural reductions regarding the professional withholding tax.

**Services and other goods** amounted to EUR 32 million as at 31 December 2013 and only amounted to EUR 28.2 million as at 31 December 2014.

This item includes fees paid to consultants, experts, auditors, as well as compensations paid to the members of the Management Board and Board of Directors, of EUR 14.2 million against EUR 13.1 million in 2013. Though, in 2014, this item includes all costs incurred by the AQR (Asset Quality Review) and the two stress tests performed by the European Central Bank and the EBA (European Banking Authority), which amounted to EUR 5.9 million.

The insurance costs, which are related to the D&O liability of the directors and officers of Dexia, also cover the consequences of frauds for Dexia committed by its employees as well as third party victims of certain losses caused by Dexia ("BBB/PI"). These covers incurred a reduced cost of EUR 2.7 million compared to EUR 7.5 million in 2013, due to the disposal of subsidiaries.

**Other operating costs** (rental of buildings, telecommunications, travel, trainings, etc.) remained stable at EUR 10.3 million compared to EUR 9.6 million in 2013.
Printing and advertising costs linked to corporate publications totalled EUR 0.1 million in 2014 (same amount as in 2013), whilst costs associated with the Group transformation plan are no more than EUR 0.9 million in 2014, compared to EUR 1.7 million in 2013.

The **cost of remunerations and social charges** decreased from EUR 14.5 million in 2013 to EUR 12.2 million in 2014, a drop of 16% despite the stability of the number of total FTEs (80 FTEs in 2014 against 79 FTEs in 2013).

**Amortisation** of intangible assets amounts to EUR 0.3 million and depreciation of tangible fixed assets EUR 0.4 million.

**Provisions for risks and charges** are commented in note “4.3.5. Provisions for other liabilities and charges”.

**Other operating expenses** (EUR 0.3 million) include mostly various taxes.

#### 4.5.2. FINANCIAL RESULT

**Income from current assets** (EUR 7.7 million) includes the interest generated from the long-term loan initially granted by DFL to Belfius Bank and recorded amongst the assets of Dexia following the merger by absorption of DFL by Dexia (EUR 2 million), short-term investments at Dexia Crédit Local (EUR 4.7 million), fixed-income instruments kept in portfolio (EUR 0.8 million) and tax deferred advances (EUR 0.2 million).

**Other financial income** results from gains due to the reimbursement by the issuers of fixed-income instruments kept in the portfolio, mainly as a result of the recovery of the financial markets following their acquisition in the year 2012 (EUR 3 million).

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**Debt charges** (EUR 0.4 million) include interest paid (EUR 0.3 million) for the loan with DCL, which was reimbursed with the profit of the sale of DAM LU and PBP, as well as other interest charges (EUR 0.1 million).

**Impairments on current assets** take into account fluctuations in the market value of fixed-income instruments, kept in portfolio. Securities acquired in 2013 have increased in value, generating a reversal of the impairment recorded in 2013 (EUR 0.6 million).

**Other financial charges** (EUR 0.2 million) include charges linked to the quotation of the Dexia share, service costs related to management of shares, custodian fees, as well as forex charges.

### 4.5.3. EXCEPTIONAL RESULT

#### Impairment on financial assets (EUR 10 million)

The sale of DAM LU for EUR 380 million with a net accounting value amounting to EUR 370 million (acquisition value of EUR 500 million reduced by EUR 130 million of impairment) resulted in the reversal of the previous recorded impairment for EUR 10 million.

#### Reversal of provisions for exceptional liabilities and charges (EUR 25 million)

The provision for other risks and charges of EUR 58 million as at 31 December 2013, which is a provision for the guarantees granted on the sale of Dexia Holdings Inc. has been reversed by EUR 25 million due to the revaluation of the risk incurred (please refer to note 4.3.5)

#### Realised gains on disposal of fixed assets (EUR 0.4 million)

The sale of PBP for the fixed amount of EUR 49.2 million while PBP was booked at EUR 48.8 million generated gain of EUR 0.4 million.

#### Other exceptional income (EUR 8.4 million)

The item "other exceptional income" includes the adjustment of EUR 8.2 million of the sale price of Dexia Banque Internationale à Luxembourg (now Banque Internationale à Luxembourg (BIL), sold on 5 October 2012 following the guarantees given and received. Also included is a part of the indemnities paid by Dexia in 2013 for the pension commitments for employees of disposed subsidiaries (EUR 0.2 million).

#### Provisions for exceptional liabilities and charges (Net result of EUR 11.8 million)

The provision of EUR 10.4 million booked in 2013 to cover costs incurred by guarantees offered during the disposal of participations was fully used in 2013.
The provision corresponding to the anticipated costs from lay-offs following the announcement of the dismantling was used for EUR 2.4 million, which is the equivalent of the severance pay costs.

Moreover, a new provision of EUR 1 million was booked in 2014 to cover costs related to the restructuration of the company.

#### Other exceptional charges (EUR 14.8 million)

Termination benefits and similar charges related to dismantling have led to exceptional charges of EUR 2.1 million, while costs related to offered guarantees during the sale of participations amounted to EUR 10.5 million. These costs have resulted in the use of provisions previously booked to cover them. (see "Provisions for exceptional liabilities and charges" above).

Costs incurred for the disposal of participations amounted to EUR 2.2 million.

### 4.5.4. CORPORATE INCOME TAX

#### Taxes (EUR 0.7 million)

The taxes relate to a tax regularisation of the permanent establishment in Paris for the year 2013.

#### Adjustments of income taxes (EUR 6 million)

The tax adjustments result from the fact that the permanent establishment in Paris is the head of the tax consolidation group in France, generating tax savings which represent an immediate gain of EUR 3.4 million for the year 2014.

Added to this is the reimbursement of the withholding taxes on dividends received from DAM LU in 2012 (EUR 2.6 million).

### 4.5.5. PROFIT FOR THE FINANCIAL YEAR

Considering the above, the 2014 financial year closed with a profit of EUR 27.8 million.

## 4.6. Statement of intangible fixed assets (licences)

| (in EUR) | Amounts |
|---|---|
| ACQUISITION VALUE AS AT 31/12/2013 | 13,734,967 |
| Movements during the period: | |
| - Acquisitions, including produced fixed assets | 533,845 |
| - Sales and disposals | (10,000) |
| ACQUISITION VALUE AS AT 31/12/2014 | 14,258,812 |
| DEPRECIATION AS AT 31/12/2013 | 13,309,883 |
| Movements during the period: | |
| - Recorded | 298,833 |
| - Cancelled due to sales and disposals | (10,000) |
| DEPRECIATION AS AT 31/12/2014 | 13,598,716 |
| NET BOOK VALUE AS AT 31/12/2014 | 660,096 |

## 4.7. Statement of tangible fixed assets

| (in EUR) | Plant, machinery and equipment | Furniture and vehicles | Other tangible fixed assets |
|---|---|---|---|
| ACQUISITION VALUE AS AT 31/12/2013 | 303,459 | 5,947,498 | 1,657,030 |
| Movements during the period: | | | |
| - Acquisitions | 0 | 0 | 0 |
| - Sales and disposals | (15,111) | 0 | (52,580) |
| ACQUISITION VALUE AS AT 31/12/2014 | 288,348 | 5,947,498 | 1,604,450 |
| DEPRECIATION AS AT 31/12/2013 | 263,187 | 5,398,242 | 879,453 |
| Movements during the period: | | | |
| - Recorded | 14,351 | 122,498 | 299,777 |
| - Cancelled due to sales and disposals | (15,111) | 0 | (52,405) |
| DEPRECIATION AS AT 31/12/2014 | 262,427 | 5,520,740 | 1,126,825 |
| NET BOOK VALUE AS AT 31/12/2014 | 25,921 | 426,758 | 477,625 |

## 4.8. Statement of financial fixed assets

### 1. PARTICIPATING INTERESTS AND SHARES

| (in EUR) | 1. Affiliated | 2. Other enterprises |
|---|---|---|
| **ACQUISITION VALUE AS AT 31/12/2013** | **17,595,686,960** | **2,001,000** |
| Movements during the period: | | |
| - Acquisitions | 0 | 0 |
| - Sales and disposals | (548,779,445) | 0 |
| **ACQUISITION VALUE AS AT 31/12/2014** | **17,046,907,515** | **2,001,000** |
| | **1. Affiliated** | **2. Other enterprises** |
| **AMOUNTS WRITTEN DOWN AS AT 31/12/2013** | **15,083,824,257** | **0** |
| Movements during the period: | | |
| - Recorded | 0 | 0 |
| - Write-back | (10,000,000) | 0 |
| - Cancelled due to sales and disposals | (120,000,000) | 0 |
| **AMOUNTS WRITTEN DOWN AS AT 31/12/2014** | **14,953,824,257** | **0** |
| **NET BOOK VALUE AS AT 31/12/2014** | **2,093,083,258** | **2,001,000** |

### 2. AMOUNTS RECEIVABLE

| (in EUR) | 1. Affiliated | 2. Other enterprises |
|---|---|---|
| **NET BOOK VALUE AS AT 31/12/2013** | **0** | **208,614** |
| Movements during the period: | | |
| - Additions | 0 | 11 |
| - Reimbursement | 0 | (41,934) |
| **NET BOOK VALUE AS AT 31/12/2014** | **0** | **166,691** |
| **ACCUMULATED WRITING-OFF'S ON RECEIVABLES AT 31/12/2014** | **0** | **0** |

## 4.9. Share in the capital and other rights in other enterprises

List of enterprises in which the enterprise holds a participating interest, and other enterprises in which the enterprise holds rights in the amount of at least 10% of the capital issued.

| Name, full address of the registered office and for the enterprise governed by Belgian law, the company number | Shares held by | | | Information from the most recent period for which annual accounts are available | | | |
|---|---|---|---|---|---|---|---|
| | The enterprise (directly) | | Subsidia-ries | Primary financial statement | Mone-tary unit | Capital and reserve | Net result |
| | Number | % | % | | | (+) or (-) (in monetary unit) | |
| Dexia Crédit Local SA - FC (1)<br>1, passerelle des Reflets, Tour Dexia - La Défense 2<br>F-92919 Paris<br>Common shares | 223,657,776 | 100.00 | 0.00 | 31/12/13 | EUR | 1,928,036,489 | (25,026,743) |
| Dexia Nederland BV - FC (1)<br>Parnassusweg 819<br>NL-1082 LZ Amsterdam<br>Common shares | 50,000 | 100.00 | 0.00 | 31/12/13 | EUR | 261,786,000 | (5,291,000) |
| Dexiarail SA - FC (1)<br>1, passerelle des Reflets, Tour Dexia - La Défense 2<br>F-92919 Paris<br>Common shares | 2,500 | 100.00 | 0.00 | 31/12/13 | EUR | 25,577 | (6,204) |
| White Rock Insurance PCC Ltd - FC (1)<br>Cell Dexia 913 Europort<br>Gibraltar<br>Common shares | 1 | 100.00 | 0.00 | 31/12/13 | EUR | 1,671,814 | (185,686) |

*(1) FC: Foreign Company*

## 4.10. Investments : other investments and deposits

| (in EUR) | Previous period | Period |
|---|---|---|
| **Fixed income** | **156,358,406** | **144,930,760** |
| **Fixed-term deposits with credit institutions** | **695,800,000** | **710,000,000** |
| **with a residual maturity or period of notice of:** | | |
| - Within one year | 800,000 | 0 |
| - More than one month but within one year | 695,000,000 | 710,000,000 |

## 4.11. Deferred charges and accrued income from the assets

| (in EUR) | Period |
|---|---|
| Deferred charges: Services and other goods | 1,566,733 |
| Accrued income: Interest | 158,151 |

## 4.12. Statement of capital and shareholder's structure

### A. ISSUED CAPITAL

| | Amounts (in EUR) | Number of shares |
|---|---|---|
| ISSUED CAPITAL AS AT 31/12/2013 | 500,000,000 | 30,896,352,895 |
| Changes during the period: | 0 | 0 |
| ISSUED CAPITAL AS AT 31/12/2014 | 500,000,000 | 30,896,352,895 |

### B. STRUCTURE OF THE CAPITAL

| | Amounts (in EUR) | Number of shares |
|---|---|---|
| Different categories of shares | | |
| Common shares class A without indication of nominal value, each representing 1/1,948,984,474 of the issued capital | 1 | 1,948,984,474 |
| Preferred shares class B without indication of nominal value, each representing 1/28,947,368,421 of the issued capital | 499,999,999 | 28,947,368,421 |
| - Registered shares | | 29,223,257,845 |
| - Bearer shares and/or dematerialised | | 1,673,095,050 |

### C. OWN SHARES HELD BY

| | Amount of capital (in EUR) | Number of shares |
|---|---|---|
| - the company itself | 0 | 0 |
| - its direct subsidiaries | 5,254 | 324,633 |

### D. COMMITMENTS TO ISSUE SHARES

| | Amount of capital (in EUR) | Number of shares |
|---|---|---|
| **Following the exercising of subscription rights** | | |
| - Number of outstanding subscription rights | | 42,088,085 |
| - Amount of capital to be issued | 681,117 | |
| - Corresponding maximum number of shares to be issued | | 42,088,085 |

### E. AMOUNT OF AUTHORISED CAPITAL, NOT ISSUED

| | Amounts (in EUR) |
|---|---|
| | 500,000,000 |

### F. STRUCTURE OF SHAREHOLDINGS OF THE ENTERPRISE AS AT THE ANNUAL BALANCING OF THE BOOKS, AS IT APPEARS FROM THE STATEMENT RECEIVED BY THE ENTERPRISE

Société de Prise de Participation de l'Etat (SPPE) : 44.397%

Société Fédérale de Participations et d'investissement (SFPI) : 50.018%

## 4.13. Provisions for liabilities and charges

| (in EUR) | Period |
|---|---|
| Provision for guarantees related to the sale of investments | 32,986,970 |
| Severance payments and related costs | 24,512,344 |
| Commitment as head of a fiscal consolidation (France) | 1,005,587 |

## 4.14. Statements of debts

| Analysis of debts with an original maturity of more than one year according to their residual maturity<br>(in EUR) | Amounts payable after more than 1 year but less than 5 years |
|---|---|
| **Financial debts** | **39,788,000** |
| Subordinated loans | 39,788,000 |

## 4.15. Amounts payable for taxes, remuneration and social security

| (in EUR) | Period |
|---|---|
| **Taxes** | |
| a) Expired taxes payable | 0 |
| b) Non-expired taxes payable | 333,754 |
| c) Estimated taxes payable | 3,250,936 |
| **Remuneration and social security** | |
| a) Amounts due to the National Office of Social Security | 0 |
| b) Other amounts payable relating to remuneration and social security | 2,803,591 |

## 4.16. Accrued charges and deferred income in the liabilities

| (in EUR) | Period |
|---|---|
| Accrued charges: rent | 495,093 |
| Accrued charges: other general operating expense | 5,233 |

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## 4.17. Operating results

| (in EUR) | Previous period | Period |
|---|---|---|
| **OPERATING INCOME** | | |
| **Other operating income** | | |
| whereof: the total amount of subsidies and compensatory amounts obtained from public authorities | 125,315 | 89,794 |
| **OPERATING CHARGES** | | |
| **Employees for which the enterprise has declared a DIMONA-statement** | | |
| **or employees recorded in a general personnel register in Belgium** | | |
| a) Total number at the closing date | 79 | 83 |
| b) Average number of employees in full-time equivalents | 77.6 | 79.6 |
| c) Number of actual working hours | 114,902 | 111,017 |
| Personnel charges | | |
| a) Remuneration and direct social benefits | 9,462,950 | 8,565,562 |
| b) Employers' contribution for social security | 2,855,942 | 2,740,367 |
| c) Employers' premium for extra statutory insurance | 1,952,656 | 738,992 |
| d) Other personnel charges | 203,284 | 159,046 |
| **Provisions for liabilities and charges** | | |
| Increases | 150,838 | 150,838 |
| Decreases | 0 | 0 |
| **Other operating charges** | | |
| Taxes related to operations | 2,655,889 | 311,345 |
| Other charges | 177,418 | 9,826 |
| **Temporary personnel and persons placed at the disposal of the enterprise** | | |
| a) Total number at the closing date | 0 | 0 |
| b) Average number of employees in full-time equivalents | 0.1 | 0.0 |
| c) Number of actual working hours | 61 | 0 |
| d) Charges to the enterprise | 3,406 | 0.0 |

## 4.18. Financial and exceptional results

| (in EUR) | Previous period | Period |
|---|---|---|
| **Other financial income** | | |
| Exchange differences | 1,668 | 34,563 |
| Gain at refund of fixed-income securities | 3,183,712 | 2,978,940 |
| Other financial income | 14,267 | 2 |
| **Amounts written off on current assets** | | |
| - Recorded | 553,250 | 0 |
| - Write-back | 4,056,436 | 553,250 |
| **Ventilation of other financial charges** | | |
| Cost of payment dividends | 4,948 | 1,754 |
| Exchange differences | 158,805 | 29,137 |
| Service costs related to the management of actions | 118,539 | 31,636 |
| Charges in connection with the quotation of the Dexia share quota | 71,005 | 54,439 |
| Custodian fees | 112,188 | 22,939 |
| Other financial charges | 57,454 | 60,873 |
| **Ventilation of other exceptional income** | | |
| Income related to the sale of branches (adjustment of the sales price) | | 8,151,502 |
| Income related to the sale of branches (engagements of pension) | | 291,117 |
| **Compensation of other exceptional charges** | | |
| Dismissal fees related to the structural measures | | 2,105,286 |
| Expenses related to the sale of branches (lawyers, consultants) | | 1,286,808 |
| Compensation related to the sale of branches | | 1,792,326 |
| Compensation related to the garantee at the sale of a branch | | 8,750,000 |
| Expenses related to the restructuration | | 885,712 |

## 4.19. Income taxes

| (in EUR) | Period |
|---|---|
| **Income taxes of the current period:** | **28,456** |
| a) Taxes and withholding taxes due or paid | 1,137 |
| b) Excess of income tax prepayments and withholding taxes capitalised | 0 |
| c) Estimated tax supplements | 27,319 |
| **Income tax of the previous years** | **643,803** |
| a) Additional tax due or paid | 643,803 |
| **Principal sources of differences between the profit before taxes, mentioned in the accounts, and the estimated taxable profit** | |
| a) Write-back and utilisation of fiscal deductable provisions | 37,817,411 |
| b) Fiscal integration in France (PM) | 1 |
| **Impact of the exceptional results in the taxes on the profit of the year** | |
| Only the other exceptional income and charges are taxable. | |
| **Status of deferred taxes:** | |
| a) Deferred taxes representing assets | 801,201,336 |
| Accumulated tax losses deductible from future taxable profits | 517,021,301 |
| Other deferred taxes representing assets | |
| - Surplus of revenues definitively taxed | 283,866,515 |
| - Surplus on depreciations | 313,520 |

## 4.20. Value added tax and taxes borne by third parties

| (in EUR) | Previous period | Period |
|---|---|---|
| **Total amount of value added tax charged during the period** | | |
| 1. To the enterprise (deductible) | 236,431 | 345,081 |
| 2. By the enterprise | 48,230 | 5,872 |
| **Amounts retained on behalf of third parties for** | | |
| 1. Payroll withholding taxes | 4,996,119 | 3,507,000 |
| 2. Withholding taxes on investment income | 0 | 0 |

## 4.21. Rights and commitments not reflected in the balance sheet

| (in EUR) | Period |
|---|---|
| **Personal guarantees, provided or irrevocably promised by the enterprise, as security for debt and commitments of third parties** | 7,500 |
| **Guarantees given or irrevocably promised by the enterprise on its own assets collateral for own debts and liabilities of the company** | |
| Pledging of other assets - Book value of assets pledged | 150,323,723 |

**Information concerning important litigations and other commitments**

Dexia has given guarantees within the scope of the sale of its participations.

See note 4.4. of the annual financial statements

**If there is a supplementary retirement or survivor's pension plan in favour of the personnel or the executives of the enterprise, a brief description of such plan and of the measures taken by the enterprise to cover the resulting charges**

Members of staff benefit from a supplementary retirement and survival pension scheme for which both employee and staff premiums have been paid to a group insurance. Some members of the Management Board also benefit from a supplementary scheme, of which the contributions are paid to an external insurance company (See note “Remuneration of the Management Board” in the section “Declaration of corporate governance” of the Management Report).

# 5. Financial relationships

## 5.1. Relationships with affiliated enterprises and enterprises linked by participating interests

| | Affiliated enterprises | |
|---|---|---|
| (in EUR) | **Previous period** | **Period** |
| **FINANCIAL FIXED ASSETS** | **2,511,862,703** | **2,093,083,258** |
| Investments | 2,511,862,703 | 2,093,083,258 |
| **AMOUNTS RECEIVABLE** | **80,898,730** | **84,235,537** |
| After one year | 73,269,152 | 79,732,408 |
| Within one year | 7,629,578 | 4,503,129 |
| **CURRENT INVESTMENTS** | **695,000,000** | **710,000,000** |
| Amounts receivable | 695,000,000 | 710,000,000 |
| **AMOUNTS PAYABLE** | **604,079,518** | **4,091,640** |
| After one year | 415,166,623 | 0 |
| Within one year | 188,912,895 | 4,091,640 |
| **FINANCIAL RESULTS** | | |
| Income from financial fixed assets | 200,000,000 | 0 |
| Income from current assets | 6,211,089 | 4,925,273 |
| Debt charges | 9,349,571 | 336,405 |
| Other financial charges | 157,569 | 0 |
| **DISPOSAL OF FIXED ASSETS** | | |
| Realised gains | 19,915,937 | 420,556 |
| Realised losses | 246,169 | 1 |

## 5.2. Transactions with related parties outside of normal market conditions

Nihil.

## 5.3. Relationships with directors and managers, individuals or bodies corporate who control the enteprise without being associated therewith or other enterprises controlled by the mentioned persons without being associated therewith

Amount of direct and indirect remuneration and pensions, included in the income statement, as long as this disclosure does not concern exclusively or mainly, the situation of a single identifiable person

| | |
|---|---|
| To the directors | 1,315,178 |
| To the former directors | 865,200 |

## 5.4. Relationships with affiliated auditor

| | |
|---|---|
| **Remuneration of the Statutory Auditor** | **395,000** |
| **Remuneration for exceptional tasks executed within the enterprise by the Statutory Auditor** | |
| Other missions of control | 275,000 |
| Other missions external to the audit | 1,057,024 |

# 6. Declaration concerning the consolidated accounts

The enterprise has established and published the consolidated financial statements and a consolidated management report.

# 7. Social report

Number of the joint commission of the company: 218

## 7.1. Statement of the persons employed in 2014

### A. EMPLOYEES FOR WHICH THE ENTERPRISE HAS DECLARED A DIMONA-STATEMENT OR EMPLOYEES RECORDED IN THE GENERAL STAFF REGISTER IN BELGIUM

| 1. During the period | Total | 1. Male | 2. Female |
|---|---|---|---|
| **a. Average number of employees** | | | |
| Full-time | 73.6 | 47.8 | 25.8 |
| Part-time | 9.6 | 5.9 | 3.7 |
| **TOTAL FULL-TIME EQUIVALENTS (FTE)** | **79.6** | **50.7** | **28.9** |
| **b. Number of actual working hours** | | | |
| Full-time | 101,914 | 66,702 | 35,212 |
| Part-time | 9,103 | 4,685 | 4,418 |
| **TOTAL** | **111,017** | **71,387** | **39,630** |
| **c. Personnel charges** | | | |
| Full-time | 11,184,017 | 7,999,952 | 3,184,065 |
| Part-time | 817,411 | 470,977 | 346,434 |
| **TOTAL** | **12,001,428** | **8,470,929** | **3,530,499** |

| 2. During the previous year | Total | 1. Male | 2. Female |
|---|---|---|---|
| Average number of employees in FTE | 77.6 | 51.6 | 26.0 |
| Number of actual working hours | 114,902 | 77,967 | 36,935 |
| Personnel charges | 13,643,799 | 9,258,029 | 4,385,770 |

| 3. As at the closing date of the period | Full-time | Part-time | Total of full-time equivalents |
|---|---|---|---|
| **a. Number of employees recorded in the personnel register** | 73 | 10 | 79.2 |
| **b. By nature of the employment contract** | | | |
| Open-ended contract | 73 | 10 | 79.2 |
| **c. According to gender and by level of education** | | | |
| Male | 47 | 6 | 49.9 |
| secondary education | 5 | 0 | 5.0 |
| higher non-university education | 4 | 1 | 4.5 |
| university education | 38 | 5 | 40.4 |
| Female | 26 | 4 | 29.3 |
| secondary education | 2 | 0 | 2.0 |
| higher non-university education | 5 | 1 | 5.9 |
| university education | 19 | 3 | 21.4 |
| **d. By professional category** | | | |
| Management staff | 12 | 0 | 12.0 |
| Employees | 61 | 10 | 67.2 |
| Other | | | |

## 7.2. Table of personnel movements during the period

### A. ENTRIES

| | Full-time | Part-time | Total of full-time equivalents |
|---|---|---|---|
| **a. Number of employees for which the enterprise has declared a DIMONA-statement or employees recorded in the general staff register during the period in Belgium** | 11 | 1 | 11.8 |
| **b. By nature of the employment contract** | | | |
| Open-ended contract | 9 | 0 | 9.0 |
| Fixed-term contract | 2 | 1 | 2.8 |

### B. DEPARTURES

| | Full-time | Part-time | Total of full-time equivalents |
|---|---|---|---|
| **a. Number of employees for which the enterprise declared a DIMONA-statement or number of employees with a in Belgium in the general staff register listed date of termination of the contract during the period** | 10 | 1 | 10.8 |
| **b. By nature of the employment contract** | | | |
| Open-ended contract | 8 | 0 | 8.0 |
| Fixed-term contract | 2 | 1 | 2.8 |
| **c. According to the reason for termination of the employment contract** | | | |
| Pension | 1 | 0 | 1.0 |
| Dismissal | 1 | 0 | 1.0 |
| Other reason | 8 | 1 | 8.8 |
| Of which: the number of persons who continue to render services to the enterprise at least half-time on a self-employed basis | 0 | 0 | 0 |

## 7.3. Information on training provided during the financial year to employees recorded on the staff register

| Total of formal continuing vocational training initiatives for workers paid by the employer | Male | Female |
|---|---|---|
| Number of employees involved | 34 | 25 |
| Number of training hours | 642 | 586 |
| Costs for the enterprise (in EUR) | 94,093 | 71,647 |
| - of which gross costs directly associated with the company (in EUR) | 94,093 | 71,647 |

# Dexia SA Statutory auditor's report to the shareholders' meeting on the annual accounts for the year ended 31 December 2014

To the shareholders

As required by law and the company's articles of association, we report to you in the context of our appointment as the company's statutory auditor. This report includes our report on the annual accounts together with our report on other legal and regulatory requirements. These annual accounts comprise the balance sheet as at 31 December 2014 and the income statement for the year then ended, as well as the summary of accounting policies and other disclosures.

## Report on the annual accounts – Unqualified opinion with emphasis of matter paragraph on the application of the valuation rules in going concern

We have audited the annual accounts of Dexia SA ("the company"), prepared in accordance with the financial reporting framework applicable in Belgium, which show total assets of 3,122,383 (000) EUR and a profit for the year of 27,770 (000) EUR.

### Board of directors' responsibility for the preparation of the annual accounts

The board of directors is responsible for the preparation and fair presentation of annual accounts in accordance with the financial-reporting framework applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

### Statutory auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the annual accounts.

We have obtained from the company's officials and the board of directors the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Unqualified opinion

In our opinion, the annual accounts of Dexia SA give a true and fair view of the company's net equity and financial position as of 31 December 2014 and of its results for the year then ended, in accordance with the financial reporting framework applicable in Belgium.

### Emphasis of Matter Paragraph on the application of the valuation rules in the assumption for going concern of the business activities

Without modifying the above unqualified opinion, we draw your attention to point 4 of the notes to the annual financial statements which states that the annual financial statements of Dexia SA as of 31 December 2014 have been prepared using the going concern principle in accordance with article 96, §1, 6° of the Companies Code.

The justification of the going concern assumption is supported by a revised business plan approved by the group's board of directors on 9 October 2014 and which is taking into account a.o. the following assumptions:

• The revised business plan is based on different underlying macroeconomic assumptions (including the expected evolution of interest rates and credit environment). These assumptions were reviewed within the framework of the revised business plan ratified by the board of directors on 9 October 2014 and based on the latest observable market conditions as well as the regulatory developments known at that date. 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 available for sale and for the valuation of derivatives. 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. A new update of the plan will be performed in the 2nd quarter 2015.

• The revised business plan assumes that the different entities maintain their banking licence. It also relies on the maintenance of the rating of Dexia Crédit Local SA.

• The revised business plan relies on a robust funding program based on Dexia's ability to issue debt guaranteed by the Belgium, France and Luxembourg states and to raise secured funding.

• The revised business plan is also sensitive to 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 may not allow compliance with certain regulatory rations during its resolution process.

With respect to the realisation of the revised business plan, taking into account the numerous exogenous variables, uncertainties remain as of the date of this report.

The going concern assumption is only justified to the extent that the group succeeds in realizing its revised business plan based on the underlying assumptions described in point 4 of the notes to the annual financial statements. No adjustments have been recorded with respect to the valuation or the classification of certain balance sheet items, which would be required, should the group no longer be able to continue its operations.

## Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the directors' report on the annual accounts, as well as for maintaining the company's accounting records in compliance with the legal and regulatory requirements applicable in Belgium and for the company's compliance with the Companies Code and the company's articles of association.

As part of our mandate and in accordance with the Belgian standard which is complementary to the International Standards on Auditing as applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we make the following additional statements, which do not modify the scope of our opinion on the annual accounts:

• The directors' report includes the information required by law, is consistent with the annual accounts and is free from material inconsistencies with the information that we became aware of during the performance of our mandate.

• Without prejudice to certain formal aspects of minor importance, the accounting records are maintained in accordance with the legal and regulatory requirements applicable in Belgium.

• The appropriation of results proposed to the general meeting is in accordance with the relevant requirements of the law and the company's articles of association.

• There are no transactions undertaken or decisions taken in violation of the company's articles of association or the Companies Code that we have to report to you.

• Regarding the legal requirements concerning conflicts of interests (article 523 of the Companies Codes) the board of directors has taken the following decisions:

– The decisions of the board of directors on 19 February 2014 relating to the compensation for Mr. Pierre Vergnes, the changes to the composition of the Management Board and the authorisation for Mr. Karel De Boeck to continue serving in his positions after his 65th birthday, as described in the section "Declaration of corporate governance" on pages 50-51 of the management report, has the following financial consequences:

"The board decides unanimously to:

(i) Confirm, as necessary, its decision to authorise Mr De Boeck to continue serving as Chairman of the Management Board and Chief Executive Officer of Dexia SA after his 65th birthday and through to the end of his directorship with Dexia SA (i.e. at the end of the annual general meeting in 2016);

(ii) Reduce the number of Management Board members to three, namely Messrs Karel De Boeck, Claude Piret and Pierre Vergnes (while noting that Mr Philippe Rucheton will continue to be a member until 31 March 2014);

(iii) Set the compensation received by Mr Vergnes for his positions within the Dexia Group at 420.000 EUR;

(iv) (…)

(v) (…)

(vi) Confirm that the provisions relating to severance benefits for Dexia SA's Management Board members will be aligned with the timing and claw-back principle introduced by the new Belgian banking law, which will come into force over the coming months;

(vii) (…)

(viii) (…). »

– The decisions of the board of directors on 13 March 2014 relating to an indemnity guarantee to the members of the Dexia Management Board, as described in the section "Declaration of corporate governance" on pages 51-52 of the management report, has the following financial consequences:

"After discussions, the Board decides, by an unanimity of directors voting, to grant an indemnity guarantee to the members of the Dexia Management Board as from 1 January 2014 in the terms of the draft letter submitted to it.

The Board thinks that it should take this decision with the aim of good governance and in order to prevent situation of block within the Management Board.

The Board considers that this decision is in the interests of the company and that it responds to the company and the Group's need to recruit and to retain skilled executives for the Dexia Group. This need is all the more significant here in view of the current situation of Dexia and its Group. As a systemic institution involved in a complex process of orderly resolution the financial situation of which in particular is subject to factors outside the Group’s control, Dexia has an interest in offering sound liability cover in order to recruit and to retain quality executives capable of implementing the Group’s orderly resolution plan.”

– The decisions of the board of directors on 16 December 2014 relating to the harmonisation of compensation granted to non-executive directors of Dexia, as described in the section “Declaration of corporate governance” on pages 52-53 of the management report, has the following financial consequences:

“On the proposal of the Appointment and Compensation Committee, the directors who can take part in voting approve the planned harmonisation of compensation granted to non-executive directors, with the exception of the Chairman of the Board for whom compensation remains unchanged.

These new terms of compensation will enter into effect on 1 January 2015 subject to approval by the competent bodies of Dexia Crédit Local of the decisions which concern the latter.”

Diegem, 1 April 2015

The statutory auditor

DELOITTE Bedrijfsrevisoren / Reviseurs d’Entreprises
BV o.v.v.e. CVBA / SC s.f.d. SCRL
Represented by Yves Dehogne

# Additional information

## Certificate from the responsible person

I the undersigned, Karel De Boeck, Chief Executive Officer and Chairman of the Management Board of Dexia, certify that to the best of my knowledge:

a) the financial statements, established in accordance with applicable accounting standards, present a true and fair view of the assets, the financial situation and the earnings of the company and of all the companies included in the consolidation;

b) the management report contains a true and fair view of changes in the revenues, earnings and financial position of the company and of all the companies included in the scope of consolidation and a description of the main risks and uncertainties to which they are exposed.

Brussels, 30 March 2015

For the Management Board

Karel De Boeck
Chief Executive Officer and Chairman of the Management Board
Dexia

# General data

## Name
The company is called “Dexia”.

## Registered office
The registered office of the company is in Belgium at
Place du Champ de Mars, 5, 1050 Brussels
(RPM Brussels VAT BE 0458.548.296).

## Legal form, incorporation, duration
The company is a limited company under Belgian law that makes a public appeal for investment. It was incorporated on 15 July 1996 for an indefinite period. The company has two permanent offices located in France and in Luxembourg.

## Corporate object
Article 3 of the articles of association reads as follows:

“The company has the object, both in Belgium and in other countries, of:
**1.** the acquisition, holding, management and sale, by whatever means, of all equity interests in companies or any other legal entities, whatever their legal form, existing or to be created, which operate as credit institutions, insurance or reinsurance companies or which carry on financial, industrial, commercial or civil, administrative or technical activities, as well as all types of shares, bonds, public funds and any other financial instruments of whatever nature;
**2.** the provision of assistance or administrative, commercial and financial services and accomplishment of all research on behalf of third parties and in particular on behalf of companies and other legal entities, whatever their legal form, in which it holds a direct or indirect equity interest, as well as the provision of loans, advances, guarantees or securities, in whatever form;
**3.** the conducting of all movable property, real property, financial, industrial, commercial or civil transactions including the acquisition, management, leasing and sale of all movable and real property, related directly or indirectly to the realisation of its corporate object or likely to contribute to such realisation.”

## Places where the public may consult documents
The articles of association of the company are available at the office of the Clerk to the Commercial Court of Brussels and at the company’s registered office. The annual reports as well as the annual financial statements and the consolidated financial statements are lodged with the National Bank of Belgium. These documents may also be obtained from the company’s registered office. Decisions in relation to appointments and resignations of members of the Board of Directors are published in the Appendix to the Belgian Official Journal. Financial notices concerning the company are published on its website (www.dexia.com). The convocations to Shareholders’ Meetings are published on the website and in the financial newspapers, the daily press and periodicals.

Dexia’s annual report 2014 has been published by the Financial Communication Department.
This report is also available in Dutch and French and may be obtained from the Dexia head office in Brussels or in Paris or via the company website: www.dexia.com.
In case of discrepancy between the English, the French and the Dutch versions of the Annual Report, the text of the French version shall prevail.

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BIC GKCC BE BB
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## FINANCIAL CALENDAR

**Ordinary shareholders’ meeting for the 2014 financial year**
20 May 2015

**Results as at 31 March 2015**
20 May 2015

**Results as at 30 June 2015**
8 August 2015

**Results as at 30 September 2015**
14 November 2015

**Results as at 31 December 2015**
19 February 2016

**Ordinary shareholders’ meeting for the 2015 financial year**
18 May 2016

**Results as at 31 March 2016**
18 May 2016