Press release

DEXIA

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Dexia Group consolidated results H1 2017

Net income of EUR -296 million during H1 2017

- *Recurring net income of EUR -171 million, including the impact of banking taxes and regulatory contributions due for 2017 and an increase of the impairment on Puerto Rico*
- *Negative contribution from accounting volatility elements (EUR -80 million) and non-recurring elements (EUR -46 million)*

Dynamic balance sheet management, the effects of which were accentuated by the positive evolution of the macroeconomic environment

- *Balance sheet total of EUR 199.4 billion as at 30 June 2017, down EUR -13.4 billion over the half-year, including EUR -3.7 billion resulting from active balance sheet management*
- *Total Capital Ratio at 18.0% as at 30 June 2017, benefiting from the reduction of risk-weighted assets, along with the reduction of the asset portfolio*
- *Proactive funding strategy through optimised management of the funding mix and the issue calendar, enabling the funding cost to be reduced*

Choice of outsourcing to strengthen the operating model

- *Entry into exclusive negotiations with the service company Cognizant, with a view to outsourcing IT and back office activities*

Wouter Devriendt, CEO of Dexia SA, stated, "*The evolution of macroeconomic elements over the half-year had a positive impact for the Group amplifying the effect of actions undertaken both to reduce the size of the balance sheet, now below EUR 200 billion, and to increase the level of regulatory capital. We took advantage of this globally favourable market environment to proceed with targeted asset sales. This dynamic management enabled the Group's funding cost to be reduced, despite uncertain market conditions associated with the French electoral calendar. The half-year was also marked by the entry into exclusive negotiations with Cognizant with a view to outsourcing IT and back office activities, an important stage in the definition and implementation of a more effective and resilient operating model for Dexia over the long term.*"

Robert de Metz, Chairman of the Board of Directors of Dexia SA, stated, "*The Group's recourse to central bank funding is now marginal, as Dexia has gradually replaced it by market funding over the last 18 months. This enables the Bank to meet one of the main objectives of its orderly resolution plan, by reducing the risk carried by the Eurosystem. It marks a particularly important stage in the Group's resolution, whilst the European Central Bank announced that wind-down entities would no longer have access to the Eurosystem as from January 2022.*"

Introduction

H1 2017 saw a continuation of the trend of rising interest rates which began in 2016, as well as a strengthening of the euro against other currencies, including the US dollar. At the same time, the market context remained marked by high volatility, particularly associated with the electoral calendar in the Netherlands and France, as well as the economic and financial situation in Italy. Nevertheless, credit spreads improved over the second quarter.

These elements are reflected in various ways in the Dexia Group results, particularly via accounting volatility elements. They also impacted the funding requirement, the size of the Group's balance sheet and the level of solvency ratios.

In accordance with current legislation, for the period closing on 30 June 2017, Dexia is publishing a press release in relation to the condensed consolidated financial statements. Those financial statements are established on a going concern basis. This press release presents the significant transactions and events in the first half-year 2017, as well as their impact on the Group's financial situation. The Dexia SA financial report for H1 2017 will be published on 1 September 2017 in its entirety.

1. Significant events and transactions

- *Continuation of the proactive strategy to reduce the Group's balance sheet and to protect regulatory capital*
- *Careful credit risk monitoring and increasing impairments on public enterprises associated with the Commonwealth of Puerto Rico*
- *Signature of an agreement ending the litigation involving Dexia Israel and implementation of a new commercial strategy*
- *Entry into exclusive negotiations with the service company Cognizant with a view to outsourcing IT and back office activities*

1. Dynamic balance sheet and credit risk management

In the first half-year 2017, Dexia continued its proactive balance sheet reduction strategy. This was reflected by a balance sheet reduction of EUR -3.7 billion over the half-year, adding to natural asset amortisation in an amount of EUR -5.2 billion. This policy furthermore includes capital relief measures.

Over the period, Dexia made asset disposals in an amount of EUR -3.2 billion. This amount illustrates the intensification of the Group's efforts. By way of comparison, total disposals over the same period in 2016 were EUR -1.3 billion. These disposals revolve around two main axes. On the one hand the Group targeted heavily weighted assets, such as ABS, allowing a substantial reduction of the total of risk-weighted assets and as a consequence an increase of solvency. On the other hand, assets considered as risky were sold. This was particularly the case with the financing of motorways in Spain and the remaining outstanding on the city of Athens. At the same time, Dexia took advantage of favourable market conditions to dispose of various sovereign exposures and covered bonds.

The Group also continued a policy aimed at encouraging early redemptions of certain loans. Over the half-year, those efforts mostly concerned structured loans in France and enabled the balance sheet total to be reduced by EUR -0.5 billion.

Combined with natural portfolio amortisation, these measures enabled the asset portfolio to be reduced by EUR -8.9 billion at a constant exchange rate, to EUR 106.5 billion as at 30 June 2017.

The Dexia Group's loan portfolio remains globally of good quality with 91% of exposures rated *investment grade* as at 30 June 2017.

The Group pays particular attention to the monitoring and management of certain exposures considered to be sensitive. Indeed, in the first half-year 2017, Dexia remained vigilant as to the evolution of the situation of the US local public sector and in particular the Commonwealth of Puerto Rico.

Indeed, the situation of the Commonwealth still requires to be carefully monitored.

Over the half-year, the Financial Oversight and Management Board for Puerto Rico registered the debt of the central government of Puerto Rico, of the majority of public service enterprises and of the civil service pension funds under Chapter III[1] of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) promulgated by Congress in 2016. These entities have ceased payment. When their liabilities are covered by monolines, their debts have been serviced by the latter.

Dexia Group exposure is limited to public enterprises linked to the Commonwealth of Puerto Rico and amounted to EUR 442 million as at 30 June 2017. Of that amount, 95% is covered by highly rated monolines. Despite such guarantees, certain long-dated debts with bullet maturity profiles require careful attention. This situation led Dexia to increase the level of provisioning on these exposures, taking total provisions to EUR 125 million (USD 143 million) as at 30 June 2017.

At the same time, Dexia decided to dispose of certain positions, and sold EUR 86 million (USD 99 million) during the months of July and August, representing about 20% of the initial exposure.

2. Dexia Israel: harmonisation of share classes and new strategy

In 2016, Dexia Israel, Dexia Crédit Local, the Union of Local Authorities in Israel (ULAI) and the minority shareholders signed an agreement aimed at equalising the rights initially granted by the different classes of existing shares and ending the litigation involving Dexia Crédit Local in Israel. After its approval by a court in Tel Aviv, the shareholders' meetings of Dexia Israel required for implementation of the agreement were convened on 30 March 2017 and all the different share classes in existence were unified in a single class listed on the Tel Aviv Stick Exchange.

As a consequence of this operation, Dexia Crédit Local now holds 59% of the capital of Dexia Israel, whilst its co-shareholder ULAI has a holding of 6.5%. The remainder of the shares are held by the public. At the same time, the composition of the Board of Directors was altered to reflect the new shareholder structure, which today gives Dexia Crédit Local effective control of the Board of Directors of Dexia Israel.

In recent months Dexia Israel has developed a new strategy, aimed at improving the Bank's business model and its return on equity. The underlying need for this new strategy arises from the regulatory concentration limits imposed on Dexia Israel in relation to "Large Exposures", which require it to hold large amounts of capital. In this context, on 28 June, 2017, Dexia Israel signed an agreement with institutional investors for the sale of a portfolio of municipal loans in a scope of approximately NIS 1.5 billion (EUR 382 million), representing about 25% of the bank's total loan book. The sale was finalized on 2 August 2017, further to receipt of regulatory approvals.

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[1] *Chapter III is a general regime for restructuring public debts under the aegis of a tribunal for which the judge was appointed by the Chief Justice of the US Supreme Court, inspired by Chapters 9 and 11 of the Federal Bankruptcy Act.*

3. **Announcement by the European Central Bank relating to the end of access to the Eurosystem for wind-down entities**

On 21 July 2017, the European Central Bank announced that access to Eurosystem funding for wind-down entities would end as from 31 December 2021. The scope of this decision includes the Dexia Group and, more specifically, Dexia Crédit Local, Dexia Crediop and Dexia Kommunalbank Deutschland.

Considering the substantial change of Dexia's funding profile since the end of 2012 and the diversification of its funding sources, this decision of the European Central Bank does affect Dexia's resolution trajectory. Dexia will nonetheless include this element in the definition of the framework which will enable it to continue its resolution after 2021, when the current orderly resolution plan[2] is scheduled to end.

Prior to the entry of this measure into force, until the end of 2021 the Group will retain the possibility to solicit funding up to a maximum of EUR 5.2 billion from the Eurosystem.

This announcement comes at a time when the Group has already very significantly reduced its recourse to Eurosystem funding, with an outstanding falling over the year 2016 from EUR 16 billion to less than EUR 1 billion and amounting to less than EUR 90 million as of 30 June 2017.

The latest medium-term projections made by the Group envisage only a very marginal use of Eurosystem funding, which can be replaced by other funding sources, as long as there are no major disturbances on the financial markets. In any event, Dexia will keep the option of submitting a request to national central banks for Emergency Liquidity Assistance (ELA), should such disruptions arise.

4. **Signature of a letter of intent with Cognizant in relation to the planned outsourcing of Dexia's IT and back office services in France and Belgium**

On 17 May 2017, Dexia announced that it had signed a letter of intent with Cognizant and that it had commenced exclusive negotiations in relation to a long-term agreement. This agreement aims to make Cognizant Dexia's strategic provider with regard to IT and operational process management for back office market and credit activities in France and Belgium. Under the planned agreement, Cognizant will enable Dexia to complete the digital transformation of its operations at a Group level, by simplifying, modernising, optimising and securing the Dexia IT infrastructure.

This partnership will be a source of savings and it will make the cost structure more flexible, whilst guaranteeing operational continuity and opening new career prospects for the staff members concerned.

The social dimension of the agreement is a central focus of the future collaboration between the two groups. A process of information and consultation with the social partners was launched in France and Belgium on 6 June. The social partners will be invited to submit their opinions at the close of this process, planned for mid-September.

[2] *Cf. Decision of the European Commission dated 28 December 2012 approving the Dexia orderly resolution plan.*

2. Results H1 2017

A – *Presentation of Dexia SA's condensed consolidated financial statements as at 30 June 2017*

a – Going concern

The condensed consolidated financial statements of the Dexia Group as at 30 June 2017 were established in accordance with the accounting rules applicable to a going concern. This assumes a certain number of hypotheses in the business plan underlying the Dexia Group's resolution, as appear in the Appendix to this Press Release.

b – Notes in relation to accounting and regulatory developments

The IFRS 9 "financial instruments" standard was published by the IASB in July 2014 and adopted by the European Union on 22 November 2016. It will enter into force as from 1 January 2018, replacing the IAS 39 "financial instruments: accounting and valuation" standard.

On the basis of studies conducted so far, Dexia expects the application of IFRS 9 to generate a positive total net impact on Group capital as at 1 January 2018. That impact is liable to evolve depending on a certain number of factors, in particular including market conditions and their impact on the amount of the AFS reserve, normative developments and any interpretations or the calibration of impairment models, particularly regarding the macroeconomic scenarios which will be retained for such valuation.

B – *Dexia Group consolidated results for H1 2017*

- *Net income Group share of EUR -296 million in H1 2017, of which EUR -80 million related to accounting volatility elements and EUR -46 million attributable to non-recurring elements*
- *Recurring result of EUR -171 million, including the impact of banking taxes and contributions to resolution funds and the impairment of exposures to the Commonwealth of Puerto Rico*

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

Consolidated income statement - ANC format			
EUR million	**H1 2017**	**H1 2016 (*)**	**2016**
Net banking income	**9**	***-16***	***506***
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-252	*-201*	*-407*
Gross operating income	**-243**	***-217***	***99***
Cost of risk	-5	*-6*	*140*
Net gains or losses on other assets	0	*5*	*54*
Pre-tax income	**-248**	***-218***	***293***
Income tax	-46	*-21*	*42*
Result from discontinued operations	2	*0*	*17*
Net income	**-292**	***-239***	***352***
Minority interests	4	*-13*	*-1*
Net income Group share	**-296**	***-226***	***353***

(*) pro forma

During the first half-year 2017, the Dexia Group booked net income Group share of EUR -296 million.

Over the period, net banking income was EUR +9 million. Of that amount, EUR -80 million is attributable to the evolution of market parameters. The latter in fact directly impact the valuation of certain elements (derivatives valued on the basis of an OIS curve, calculation of CVA, DVA and FVA). Excluding these elements and elements of a non-recurring nature, net banking income remained relatively stable compared to H1 2016. The reduction of income, under the effect of asset portfolio attrition, was in fact offset by the fall in funding costs over the period. This is explained by three factors: the reduction of the volume of funding raised, optimisation of the funding mix in favour of market funding, which is less costly than central bank funding and deposit collection, and an improvement of market conditions reflected in the cost of funding raised.

Costs reached EUR -252 million. Of that amount, EUR -85 million corresponded to banking taxes and regulatory contributions, due for the year 2017 but booked in Q1, in application of the IFRIC 21 standard. Excluding these items, operating charges were down compared to previous half-years.

Gross operating income amounted to EUR -243 million.

The cost of risk is slightly negative, at EUR -5 million. It includes a EUR -89 million increase to the impairment on exposures associated with the Commonwealth of PuertoRico. This amount is partly offset by reversals of provisions on exposures disposed of as well as reversals of collective provisions.

Considering these elements, pre-tax income was EUR -248 million.

Over the half-year the tax charge was EUR -46 million.

The net income generated by discontinued activities or those in the process of disposal amounted to EUR +2 million. This corresponds to an impairment adjustment made by an entity sold and retroceded to Dexia in accordance with the sale agreement.

The income attributable to minority interests was EUR +4 million, leading to a net income Group share for H1 2017 of EUR -296 million.

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

The net income Group share of EUR -296 million is composed of the following elements:

- EUR -171 million attributable to recurring elements[3];
- EUR -80 million associated with accounting volatility elements[4];
- EUR -46 million generated by non-recurring elements[5].

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

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[3] *Recurring elements: elements associated with the carry of assets such as portfolio income, funding costs, operating charges, cost of risk and taxes.*

[4] *Accounting volatility elements: elements associated with asset and liability fair value adjustments in particular including the impacts of the IFRS 13 accounting standard (CVA, DVA, FVA) and the valuation of OTC derivatives, the variation of the WISE portfolio (synthetic securitisation of a portfolio of enhanced bonds).*

[5] *Non-recurring elements: elements of an exceptional nature, not liable to be regularly reproduced, in particular including gains and losses on the disposal of holdings and assets, costs and gains associated with litigation, restructuring costs.*

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Analytical presentation of the H1 2017 results of the Dexia Group				
EUR million	**Recurring elements**	**Accounting volatility elements**	**Non-recurring elements**	**Total**
Net banking income	**129**	**-80**	**-40**	**9**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-244	0	-8	-252
Gross operating income	**-115**	**-80**	**-48**	**-243**
Cost of risk	-5	0	0	-5
Net gains or losses on other assets	0	0	0	0
Pre-tax income	**-120**	**-80**	**-48**	**-248**
Income tax	-46	0	0	-46
Net result from discontinued operations	0	0	2	2
Net income	**-166**	**-80**	**-46**	**-292**
Minority interests	4	0	0	4
Net income Group Share	**-171**	**-80**	**-46**	**-296**

b.1 – Recurring elements

Recurring elements			
EUR million	**H1 2017**	***H1 2016***	***2016***
Net banking income	**129**	***133***	***386***
o/w Net interest margin	108	*114*	*197*
o/w Other	20	*19*	*188*
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-244	*-250*	*-428*
o/w Expenses excl. operational taxes	-159	*-165*	*-338*
o/w Operational taxes	-85	*-85*	*-90*
Gross operating income	**-115**	***-117***	***-42***
Cost of risk	-5	*-6*	*140*
Net gains or losses on other assets	0	*0*	*0*
Pre-tax income	**-120**	***-122***	***98***
Income tax	-46	*-21*	*43*
Net income	**-166**	***-144***	***141***
Minority interests	4	*-13*	*-1*
Net income Group share	**-171**	***-131***	***142***

The net income Group share generated by recurring elements over the half-year was EUR -171 million.

Over the period, net banking income reached EUR +129 million, including EUR 108 million by way of net interest margin, which corresponds to the asset carrying cost as well as the Group's transformation result.

Net interest margin remained relatively stable, the reduction of earnings being offset by the fall of funding costs.

Costs were EUR -244 million over the half-year. They include EUR -85 million of banking taxes and contributions to resolution funds. Excluding these items, the favourable evolution of operating costs reflects the efforts made by the Group to limit its cost base.

Including the cost of risk, at EUR -5 million, and the tax charge of EUR -46 million over the half-year, as well as minority interests of EUR +4 million, the net income Group share on recurring activities reached EUR -171 million.

b.2 – Accounting volatility elements

Over H1 2017, accounting volatility elements had a negative impact of EUR -80 million. This is essentially explained by the negative evolution of derivative valuation on the basis of an OIS curve, under market conditions unfavourable to the Group. That impact was partially offset by the favourable evolution of the CVA.

b.3 – Non-recurring elements

The contribution of non-recurring elements booked in H1 2017 was EUR -46 million. These elements consist in particular of:

- Gains associated with active balance sheet management, in an amount of EUR +12 million;
- The negative impact generated by the breakdown of hedging relationships on enterprises associated with the Commonwealth of Puerto Rico, from the viewpoint of their disposal, in an amount of EUR -52 million;
- The evolution of provisions for litigation, the net impact of which is EUR -5 million;
- The booking of restructuring costs in an amount of EUR -6 million.

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

A - Balance sheet and solvency

- *Reduction of the balance sheet by EUR -13.4 billion compared to the end of 2016, due to the improvement of the macroeconomic environment and to the strategy of reducing the asset portfolio*
- *Dexia's Total Capital Ratio at 18% at the end of June 2017, as a result of the reduction of risk-weighted assets*

a – Half-yearly balance sheet evolution

As at 30 June 2017, the Group's consolidated balance sheet total was EUR 199.4 billion, down EUR -13.4 billion on 31 December 2016.

During the first quarter, at a constant exchange rate, the reduction of balance sheet assets is principally associated with:

- The EUR -8.9 billion reduction of the asset portfolio, of which EUR -5.2 billion associated with natural portfolio amortisation and EUR -3.7 billion with asset disposals or early redemptions;
- The decline of the fair value of assets and derivatives of EUR -6.5 billion;
- A EUR -2.8 billion reduction of the amount of cash collateral paid by the Group to its derivatives counterparties, against a background of rising long-term interest rates;
- Partially offset by a EUR 6.5 billion increase of the Group's liquidity reserve placed on deposit with central banks, against the background of political uncertainty over the half-year.

On the liabilities side, at a constant exchange rate, balance sheet evolution is principally reflected by:

- A EUR -7.1 billion decline if the fair value of liabilities and derivatives;
- A EUR -4.3 billion reduction of the stock of market and European Central Bank funding.

The impact of exchange rate variations on the evolution of the balance sheet amounted to EUR -1.8 billion over the half-year.

b – Solvency ratios

As at 30 June 2017, Dexia's Common Equity Tier 1 capital was EUR 6,252 million, against EUR 7,011 million as at 31 December 2016. This fall is principally explained by the loss booked over the period and the 80% deduction of the AFS reserve in 2017, as compared with 60% in 2016, in line with the schedules defined by the CRD IV directive. The amount deducted from regulatory capital for the AFS reserve was EUR -3.2 billion as at 30 June 2017, whilst that amount was EUR -2.7 billion as at 31 December 2016. This evolution was partially offset by a tightening of credit spreads and by an appreciation of the euro, as well as the sale of heavily weighted assets or holdings directly deducted from capital.

Gains and losses recognised directly in equity stood at EUR -4.7 billion as at 30 June 2017, a strong improvement of EUR +1 billion compared to end 2016, in particular as a result of the tightening of credit spreads on Italian and Portuguese sovereigns.

As at 30 June 2017, risk-weighted assets were at EUR 36.7 billion, of which EUR 34.4 billion for credit risk, EUR 1.3 billion for market risk and EUR 1 billion for operational risk. To recall, at the end of 2016, they were at EUR 43.4 billion, of which EUR 41.0 billion for credit risk, EUR 1.4 billion for market risk and EUR 1 billion for operational risk. At a credit risk level, the sharp fall of EUR -6.6 billion fall was for the most part a result of the natural reduction of the asset portfolio, of Group disposals, of a favourable exchange effect and of a reduction of the fair value of exposures.

Considering these elements, Dexia's Common Equity Tier 1 ratio was at 17.0% as at 30 June 2017, against 16.2% at the end of 2016. The Total Capital ratio was 18.0%, against 16.8% at the end of 2016, a level higher than the threshold of 9.875% (including the capital conservation buffer of 1.250%) imposed for the year 2017 by the European Central Bank within the framework of the Supervisory Review and Evaluation Process (SREP).

The Common Equity Tier 1 and Total Capital ratios of Dexia Crédit Local were 13.9% and 14.7% respectively as at 30 June 2017.

B – Evolution of the Dexia Group's liquidity situation

- *Maintenance of prudent liquidity management in an uncertain political environment, associated in particular with the electoral situation in France*
- *Reduction of the amount of cash collateral paid to derivatives counterparties, under the effect of rising interest rates*
- *Optimisation of the funding mix and of the issue calendar enabling funding cost to be reduced*

In the first half-year of 2017, market conditions were marked by a gradual rise of interest rates, combined with volatility of credit spreads on French sovereign, against an uncertain political background, associated with the electoral calendar in France.

Against that background, Dexia continued its policy of prudent liquidity management implemented over the previous year to deal with possible disruptions of the financial markets or a sharp increase of its funding requirement.

The rise of interest rates generated a fall of EUR -3 billion in the net amount of cash collateral paid by Dexia to its derivatives counterparties, which reached EUR 29.7 billion as at 30 June 2017. Combined with the reduction of the asset portfolio, this involves a reduction of the volume of Group funding, a trend partially offset by the increase of the liquidity reserve constituted by the Group. At the end of June 2017, the total funding raised by the Group was EUR 139.6 billion, against EUR 146.5 billion at the end of December 2016.

Over the half-year, credit spreads on French sovereign risk and, indirectly, the issue conditions for debt guaranteed by the States saw severe volatility, associated with the electoral context. The management of the issue calendar nonetheless allowed the Group to place several issues, at competitive price levels. Indeed, Dexia Crédit Local successfully launched various long-term public transactions in euros and in US dollars, enabling EUR 5.5 billion to be raised, and executed an additional EUR 2.1 billion in private placements. Short-term funding activity under guaranteed format was also sustained, in euros, in pounds sterling and in US dollars, with a relatively long average maturity of 8.3 months. Global outstanding of guaranteed debt was down slightly, at EUR 70.5 billion as at 30 June 2017, against EUR 71.4 billion at the end of December 2016.

Short and long-term secured market funding also remained sustained. The reduction of outstanding, falling from EUR 58.4 billion at the end of 2016 to EUR 56.1 billion as at 30 June 2017, is proportionate to the reduction of the stock of assets eligible for this type of funding.

Relying on the momentum of 2016, the Group continued to shift its funding mix towards market funding and to reduce its recourse to European Central Bank funding, which stood at EUR 90 million as at 30 June 2017.

All of these effects are reflected by a reduction of the Group's funding cost over the half-year.

As at the end of June 2017, the Dexia Group had a liquidity reserve of EUR 21.2 billion, of which EUR 9.8 billion in the form of deposits with central banks. The Group's Liquidity Coverage Ratio (LCR) was 105%. On 21 July 2017, the European Central Bank limited recourse by the Group to the Eurosystem to an amount of EUR 5.2 billion. The consequence of that decision was a reduction of the liquidity reserve, which was at EUR 15.1 billion on 18 August 2017.

Appendices

Appendix 1 - Notes regarding the Dexia Group's condensed consolidated financial statements

The condensed consolidated financial statements of Dexia as at 30 June 2017 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions underlying the business plan for the resolution of the Dexia Group, listed below.

- The business plan was constructed from market data available at the end of September 2012; the underlying macroeconomic assumptions are reviewed as part of the half-yearly reviews of the overall plan.

  In particular, the updates made on the basis of market data observable as at 31 December 2016 and validated by the Board of Directors of Dexia on 30 August 2017 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments to date, such as the final version of the CRD IV Directive and implementation of the IFRS 9 accounting standard from 1 January 2018, based on the assumptions known to date.

  The business plan thus revised leads to adjustments in relation to the original plan. These result in a significant change to the trajectory of the Group's resolution as initially anticipated, in particular in terms of profitability, solvency and funding structure, but at this stage they do not raise questions as to the nature and the fundamentals of the resolution.

- The business plan assumes the maintenance of the banking licences of the various entities and the rating of Dexia Crédit Local.
- It moreover assumes that Dexia will retain a sound funding capacity, which relies in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on the Group's capacity to raise secured funding.

Since validation of the orderly resolution plan in December 2012, the Group's funding structure has benefited from an increase of market funding, both secured and guaranteed, at a cost considerably lower than anticipated in the business plan, and for larger volumes and longer maturities. This has enabled the Group, firstly, to exit the exceptional funding mechanisms put in place in 2012 and, secondly, to sharply reduce its reliance on central bank funding to EUR 90 million as at 30 June 2017. On 21 July 2017[6] the European Central Bank announced the end of access to the Eurosystem for wind-down entities as from 31 December 2021. Considering the substantial reduction of Dexia's funding volume since the end of 2012 and the diversification of its funding sources, the expected impact of this decision should remain limited. Furthermore, with its prudent liquidity management, Dexia has also established liquidity reserves They amounted to EUR 21.2 billion as at 30 June 2017.

However, over the duration of the Group's resolution, uncertainties remain regarding the implementation of the business plan.

- It is in particular exposed to the evolution of accounting and prudential rules.
- The financial characteristics of Dexia since its entry in resolution do not allow it to ensure constant compliance with certain regulatory ratios over the resolution period.

  The Group is also sensitive to the evolution of its macroeconomic environment and to market parameters, including exchange rates, interest rates and credit spreads, fluctuations of which are liable to impact the business plan. In particular, an unfavourable evolution of these parameters over time may weigh on the Group's liquidity and its solvency position, by increasing the amount of cash

[6] *Cf. Dexia press release dated 21 July 2017, available at www.dexia.com.*

collateral paid by Dexia to its derivatives counterparties[7] or an impact on valuations of the financial assets and liabilities and OTC derivatives, fluctuations of which are booked in the income statement and are liable to result in a fluctuation of the AFS reserve and the level of the Group's regulatory capital.

- Finally, if market demand for government-guaranteed debt were to decline, Dexia may need to turn to more costly funding sources which would directly impact the profitability assumed in the original business plan.

Appendix 2 – Simplified balance sheet (non-audited figures)

Balance sheet key figures			
EUR m	**30/06/2016**	**31/12/2016**	**30/06/2017**
Total assets	**235,887**	**212,771**	**199,394**
of which			
Cash and central banks	3,296	4,222	10,362
Financial assets at fair value through profit or loss	22,203	17,781	15,316
Hedging derivatives	7,710	6,830	5,396
Financial assets available for sale	20,468	16,568	13,434
Customer loans and advances	128,181	119,206	109,946
Accruals and other assets	43,395	36,884	34,339
Total liabilities	**232,443**	**208,197**	**194,272**
of which			
Central banks	7,350	690	90
Financial liabilities at fair value through profit or loss	23,706	18,676	15,932
Hedging derivatives	39,764	33,796	29,674
Interbank borrowings and deposits	46,284	40,238	38,286
Debt securities	97,574	98,524	94,795
Total equity	**3,444**	**4,574**	**5,122**
of which			
Equity, Group share	3,039	4,147	4,673

[7] *The sensitivity of the liquidity requirement to that parameter being in the order of EUR +1 billion for a decrease of 10 basis points in long-term rates.*

Appendix 3 – Capital adequacy (non-audited figures)

EUR m	30/06/2016	31/12/2016	30/06/2017
Common Equity Tier 1	7,401	7,011	6,252
Total capital	7,566	7,305	6,591
Risk weighted assets	49,960	43,356	36,694
Common equity Tier 1 ratio	14.8%	16.2%	17.0%
Total capital ratio	15.1%	16.8%	18.0%

Appendix 4 – Credit risk exposure (EAD) (non-audited figures)

Dexia Group exposure by geographic region			
EUR m	30/06/2016	31/12/2016	30/06/2017
France	25,081	25,484	26,437
United States	26,892	23,897	24,534
Italy	27,396	25,512	24,237
United Kingdom	26,916	25,461	23,597
Germany	22,672	20,689	19,000
Spain	15,868	14,154	12,543
Japan	8,787	7,479	7,060
Portugal	4,093	3,905	3,873
Canada	2,864	2,655	2,427
Belgium	2,182	2,035	1,775
Scandinavian countries	1,280	1,229	1,256
Central and Eastern Europe	2,429	1,843	1,084
Austria	1,559	1,118	1,065
Southeast Asia	907	620	488
South and Central America	509	490	472
Switzerland	592	399	379
Turkey	443	367	295
Netherlands	567	390	176
Greece	146	128	81
Luxembourg	104	85	60
Hungary	687	275	49
Ireland	101	103	10
Others	7,159	6,347	6,027
Total	**179,235**	**164,665**	**156,926**

Dexia Group exposure by category of counterparty			
EUR m	30/06/2016	31/12/2016	30/06/2017
Local public sector	96,018	89,298	82,772
Central governments	26,958	25,458	29,972
Financial institutions	24,496	20,123	17,631
Project finance	14,471	13,515	12,347
ABS/MBS	7,378	6,600	5,395
Corporate	8,179	7,607	6,977
Monolines	1,733	2,062	1,830
Individuals, SME and self-employed	2	2	2
Total	**179,235**	**164,665**	**156,926**

Group exposure by rating (internal rating system)			
	30/06/2016	31/12/2016	30/06/2017
AAA	16.9%	17.6%	21.3%
AA	20.3%	18.5%	14.3%
A	23.8%	24.2%	25.9%
BBB	28.4%	29.4%	29.3%
Non-investment grade	9.3%	9.2%	8.1%
D	1.1%	0.9%	0.7%
Not rated	0.2%	0.3%	0.3%
Total	**100%**	**100%**	**100%**

Appendix 5 – Group's sector exposure as at 30 June 2017 (EAD - non-audited figures)

Group sectorial exposure to certain countries							
EUR m	***Total***	*o/w local public sector*	*o/w corporate and project finance*	*o/w financial institutions*	*o/w ABS/MBS*	*o/w sovereign exposures*	*o/w monolines*
USA	24,534	11,364	738	2,837	3,228	4,903	1,463
Italy	24,237	9,955	868	785	41	12,587	0
France	26,437	14,521	3,156	2,921	0	5,839	0
United Kingdom	23,597	11,147	8,824	1,675	1,522	61	367
Germany	19,000	16,045	193	2,511	0	251	0
Spain	12,543	6,276	1,882	3,476	419	490	0
Japan	7,060	5,249	0	1,003	0	808	0
Portugal	3,873	1,771	94	15	80	1,914	0
Poland	499	1	0	1	0	497	0
Hungary	49	2	0	0	0	47	0
Turkey	295	3	3	290	0	0	0
Ireland	10	0	8	2	0	0	0
Greece	81	3	77	0	0	0	0

Appendix 6 – Asset quality (non-audited figures)

Asset quality			
EUR m	30/06/2016	31/12/2016	30/06/2017
Impaired assets	1,544	1,064	1,218
Specific impairments[(1)]	*539*	*321*	*327*
Coverage ratio[(2)]	*34.9%*	*30.2%*	*26.9%*
Collective provisions	422	416	362

(1) Impairments on loans and advances to customers and on fixed income instruments classified as available for sale.
(2) Ratio between the specific impairments and the impaired assets.

Appendix 7 – Ratings

Ratings as at 30 August 2017			
	Long term	Outlook	Short term
Dexia Crédit Local			
Fitch	BBB+	Stable	F2
Moody's	Baa3	Stable	P-3
Moody's - Counterparty Risk (CR) Assessment	*Baa3(cr)*		*P-3(cr)*
Standard & Poor's	BBB	Stable	A-2
GBB Rating	BBB	Stable	-
Dexia Crédit Local (guaranteed debt)			
Fitch	AA-	-	F1+
Moody's	Aa3	Stable	P-1
Standard & Poor's	AA	-	A-1+
Dexia Kommunalbank Deutschland (*Pfandbriefe*)			
Standard & Poor's	A	Stable	-

Appendix 8 – Litigation

Like many financial institutions, Dexia is involved in a number of regulatory investigations and litigation as plaintiff or as defendant.

The most significant developments in the first half of 2017 in relation to pending investigations and litigation in which a Dexia Group entity was named as defendant are summarized below.

The following updated data are provided for comparison and should be read in conjunction with the corresponding summaries contained or mentioned in the Dexia Annual Report 2016 (available at *www.dexia.com*).

On the basis of the information available to Dexia as at 30 June 2017, events or developments that occurred during the first half of 2017 and the beginning of the second half of 2017 in pending regulatory investigations and litigation mentioned in the Dexia Annual Report 2016, for which no update is provided below, are not expected to have a material impact on the Group's financial situation as at that date, or do not allow Dexia to assess whether they may or may not have such a material impact on the Group's financial situation.

The consequences, as assessed by Dexia on the basis of the information available to it as at 30 June 2017, of the most significant investigations and litigation liable to have a material impact on the Group's financial situation, its results or its business generally are provided in the Group's condensed consolidated financial statements. Subject to the terms and conditions of the professional liability insurance and Directors' liability insurance policies entered into by Dexia, the adverse financial consequences of all or certain investigations and litigation may be covered, in whole or in part, under one or other of such insurance policies and, upon acceptance of such risks by the relevant insurers, be offset against any payment Dexia would receive pursuant thereto.

Positive decisions in litigation relating to swap agreements offered by Dexia Crediop

Dexia Crédit Local's Italian subsidiary Dexia Crediop has secured an important victory in a litigation relating to swap operations subscribed by Italian local authorities. In a landmark decision overturning a High Court judgement at first instance, the Court of Appeal in London dismissed the City of Prato's argument that interest rate swap contracts would be void. The Court expressly confirmed the validity and binding nature of the contracts and of the applicable margins. It also confirmed that Prato had full capacity to enter into those agreements.

The Court of Appeal dismissed Prato's application for permission to appeal. Prato however lodged a specific application to file an appeal directly with the Supreme Court in London.

At the same time, in the criminal proceedings conducted against Dexia Crediop and a former employee before the Criminal Court in Prato, Dexia Crediop and its former employee was acquitted in full on all the charges made against him.

Mixed decisions of Dutch Courts in litigation relating to Dexia Nederland

The Dutch Courts issued decisions in various directions on share-leasing cases involving Dexia Nederland.

The Supreme Court (*Hoge Raad*) passed an order on the technical method of imputing the impact of lease contracts ending with a positive result on contracts under which customers had suffered a loss. In another matter, the same Supreme Court decided to cancel the early termination damages clauses provided for in certain contracts concluded by Dexia Nederland (DNL), but expressly confirmed DNL's right to be indemnified in a similar manner based on Dutch statutory rules of law. The Supreme Court also clarified the date by which spousal cancellation notices could have been validly sent.

Most recently, the Court of Appeal in Amsterdam passed an important positive decision for DNL regarding the factual non-applicability of certain principles set forth by the Supreme Court in cases where share-leasing contracts had been sold through intermediaries.

Decision by the Tel Aviv Court in the legal proceedings involving Dexia Israel

In January 2017, the Tel Aviv Court issued the second part of its decision approving the terms of the settlement concluded with plaintiffs and the consideration due to the plaintiffs and their counsel. That decision allowed Dexia Israel to initiate and finalize an equalization process for its categories of shares and to pay the agreed dividend to all shareholders. The equalization process was approved by the shareholders' meeting of Dexia Israel and finalized on 26 April 2017.

Settlement in the last outstanding case concerning alleged GIC bid rigging

Dexia settled the sole outstanding case regarding alleged GIC (*Guaranteed Investment Contracts*) bid rigging with the plaintiffs, thereby ending the last litigation naming a group entity still ongoing before US Federal or State Courts.

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