Press release

DEXIA

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Dexia Group consolidated results 2017[1]

15% reduction of the balance sheet total, through dynamic management and the positive evolution of the macroeconomic environment

- *Balance sheet total of EUR 180.9 billion as at 31 December 2017, down EUR -31.8 billion over the year, of which EUR -11 billion resulted from active balance sheet management*
- *Total Capital Ratio at 20.4% as at 31 December 2017, compared to 16.8% as at 31 December 2016, benefiting in particular from the reduction of the asset portfolio, targeting heavily weighted assets*
- *Optimisation of the funding mix and the issue calendar, enabling funding costs to be reduced*

Net income Group share of EUR -462 million in 2017

- *Significant weight of taxes and regulatory contributions, in an amount of EUR -89 million over the year 2017*
- *Positive impact of the cost of risk, at EUR +33 million, resulting in particular from reversals of provisions on assets disposed of, despite an increase of provisioning on the residual exposure to Puerto Rico*
- *Negative contribution of accounting volatility elements (EUR -64 million) and non-recurring elements (EUR -96 million)*

Implementation of the plan to convert preference shares

- *Conversion into ordinary shares of preference shares issued on 31 December 2012 and held by the Belgian and French States*

Adaptation of the operating model to the specific situation of a group in resolution

- *Choice of outsourcing to strengthen the operating model: signature of an agreement to outsource IT and back office activities in France and Belgium with the service company Cognizant*

Wouter Devriendt, CEO of Dexia SA, stated: "*In 2017, the Group focused on simplifying and strengthening its financial structure. Market circumstances were favourable and we took advantage of that to optimise funding sources but also to accelerate the reduction of our asset portfolios and to reduce risk and complexity. That acceleration was reflected by a 15% reduction of the balance sheet, now at EUR 181 billion, and had a positive impact on our equity. The teams continue their remarkable work of managing this complex resolution, and I thank them for it."*

Robert de Metz, Chairman of the Board of Directors of Dexia SA, stated: "*In 2017 Dexia continued in its efforts to adapt the Group's operating model and to increase its resilience. The signature with Cognizant of an agreement to outsource our IT and back office activities in France and Belgium, established an operating model which will be more solid and more efficient over the long term. Moreover, the conversion of preference shares into ordinary shares, approved by the shareholders' meeting held on 7 December 2017, was a key achievement for the further resolution of the Group.*"

[1] *The figures in this press release have not been audited.*

Introduction

In 2017, the Dexia Group continued to implement the orderly resolution plan, approved by the European Commission on 28 December 2012.

The year 2017 was one of rising rates in the euro zone and in the United States, and was marked by a strengthening of the euro against the main currencies as well as a tightening of credit spreads in particular on peripheral sovereigns. Globally, these developments are reflected in the various financial indicators for 2017 published by the Group. This environment was favourable to an acceleration of the reduction of risks and the size of the Dexia balance sheet and, in fine, a reduction of the risk borne by the States shareholders and guarantors.

At the same time the Group continued its efforts to transform and to strengthen its operating model aiming for increased flexibility, a reduction of operating risk and a reduction of its costs.

The Board of Directors of Dexia SA met on 28 February 2018 and drew up the income statement and the balance sheet of Dexia SA for the 2017 financial year[2]. Dexia's annual report will be published on 13 April 2018 on Dexia's website *www.dexia.com*.

1. Significant events and transactions

- Dynamic strategy to reduce the balance sheet and credit risk; continuation of regulatory capital measures
- Signature of an agreement to outsource IT and back office activities in France and Belgium with the service company Cognizant
- Conversion into ordinary shares of the preference shares issued on 31 December 2012 and held by the French and Belgian States

A. Progress on the Group orderly resolution plan

Dynamic management of the balance sheet and credit risk

In 2017, Dexia intensified its proactive strategy to reduce the balance sheet and risks. This materialises in a reduction of the balance sheet by EUR 10.9 billion over the year, of which EUR 9.9 billion of asset disposals and EUR 1.0 billion of early redemptions. This strategy moreover includes regulatory capital relief measures.

Over the year, Dexia made disposals, revolving around three main axes. On the one hand, the Group targeted heavily capital-weighted assets, such as asset-backed securities (ABS) and subordinated bank exposures, allowing its solvency to be increased. On the other hand, it took advantage of favourable market conditions to dispose of sovereign exposures, covered bonds and municipal loans, particularly in France and the United States. Finally, assets considered to be risky were also sold. This was particularly the case of certain positions linked to the Commonwealth of Puerto Rico for a total amount of EUR 354 million (USD 412 million).

The Group also continued with a policy aimed at encouraging early redemption of certain loans. In 2017, these efforts related in particular to social leasing loans in France and the financing of railway equipment in Australia.

The Group also took opportunities to reduce the complexity emanating from structured transactions with very long maturities, unwinding certain credit protections. These transactions allowed some "large exposures" to be reduced and had a positive impact on the Group's capital and liquidity.

[2] *The audit of the financial statements as at 31 December 2017 is still ongoing.*

Combined with natural portfolio amortisation (EUR 9.1 billion), these measures allowed the asset portfolio to be reduced by EUR 20.0 billion at a constant exchange rate, to EUR 94.5 billion as at 31 December 2017. The impact on result was limited.

Dexia Group credit portfolio remains of good quality overall, at 90% of exposures rated investment grade as at 31 December 2017.

The Group pays particular attention to the monitoring and management of certain exposures considered to be sensitive. Dexia remains vigilant as to the evolution of the American local public sector and particularly the Commonwealth of Puerto Rico, where the situation remains fragile. As at 31 December 2017, Dexia's residual exposure was limited to public enterprises linked to the Commonwealth of Puerto Rico and amounted to EUR 88 million. Although entirely covered by credit enhancers, certain distant reimbursement maturities without intermediary amortisation require careful attention. Dexia therefore took total provisions to EUR 35.7 million (USD 42.8 million) as at 31 December 2017.

Strengthening the operating model: signature of a services outsourcing agreement with Cognizant

In order to complete its resolution correctly, the Dexia Group has to secure its operational continuity. In order to adapt its operating model to the requirements of a structure in resolution, the income of which reduces progressively with the reduction of its balance sheet, the Group made the choice, on the one hand, to rely on the outsourcing of certain activities in order to guarantee continuity, whilst offering greater cost flexibility and, on the other hand, to simplify and to integrate its activities, so as to increase resilience.

From this logical viewpoint, on 4 October 2017, Dexia signed an agreement with Cognizant for 10 years, making Cognizant Dexia's strategic partner for IT and the management of operational processes on back office markets and credit activities in France and Belgium[3].

Under the terms of this agreement, Dexia staff members in charge of IT and back office activities join a dedicated company, newly created in France by Cognizant. To allow for a smooth transition, implementation of the agreement is in two phases. IT services were transferred on 1 November 2017 and back-offices will join Cognizant in May 2018.

All in all, approximately 150 Dexia staff members will join the new entity, Cognizant Horizon, benefiting from new career prospects in an expanding Group.

This partnership will be a source of savings for Dexia and will enable it to make its costs structure more flexible, whilst ensuring operational continuity.

Conversion of preference shares

On 7 December 2017, an extraordinary shareholders' meeting[4] approved the proposal to convert the preference shares subscribed in 2012 by the Belgian and French States for an amount of EUR 5.5 billion, and to issue profit shares.

As part of this conversion, all the preference shares issued on 31 December 2012 and held by the Belgian and French States were converted into ordinary shares, at a conversion rate of 14.446 ordinary shares against one preference share. At the same time, profit shares bearing Contingent Liquidation Rights (CLR) were granted to the Belgian and French States. These CLR do not represent the capital of Dexia, but grant the States the right to benefit from a preferential distribution, on the liquidation of Dexia, after settlement of the debts and charges, in an amount of EUR 440 million per annum to count from 1 January 2018 up to the

[3] *Cf. Press Release issued jointly by Dexia and Cognizant on 5 October 2017, available at www.dexia.com.*
[4] *Cf. Press Release issued by Dexia on 7 December 2017, available at www.dexia.com.*

date of liquidation. This right to a preferential distribution in the event of liquidation may only be exercised once, on the occasion of Dexia's liquidation.

After this conversion, the Belgian and French States hold 52.8% and 46.8% respectively of the shares of Dexia SA.

The conversion plan falls within the framework of the Dexia orderly resolution plan, approved by the European Commission on 28 December 2012. It is implemented with a view to meeting the requirements of banking regulations. In particular, the conversion plan has the following two objectives:

- on the one hand, to ensure the observance by Dexia SA of its regulatory obligations regarding solvency;
- and on the other hand, to ensure the ongoing observance of the "burden sharing" requirements imposed by the European Commission in its decision dated 28 December 2012 by virtue of the regulations on State aid which, to recall, aim to guarantee that any improvement in Dexia's financial situation will primarily and principally benefit the States[5].

The plan was approved by the European Commission on 19 September 2017[6]. On 27 November 2017, the European Central Bank gave its consent to the ordinary shares emanating from the conversion to be effectively treated as Common Equity Tier 1.

B. 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 the Eurosystem for wind-down entities would end as from 31 December 2021[7]. 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 the Group's funding profile since the end of 2012 and the diversification of its funding sources, this decision by the European Central Bank does not affect the Dexia Group's resolution trajectory.

This announcement comes at a time when the Group had already significantly reduced its recourse to Eurosystem funding, this funding source being reduced to nil as at 31 December 2017. Dexia has included this element in the definition of the framework which will enable it to continue its resolution after 2021, the date corresponding to the end of the current orderly resolution plan[8].

Until that measure takes effect, as from the end of 2021, the Group will have the possibility of asking for a maximum of funding of EUR 5.2 billion from the Eurosystem.

Dexia will also retain the option of submitting a request to national central banks for access to Emergency Liquidity Assistance (ELA) in the event of major market disruptions.

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[5] *Cf. Decision of the European Commission dated 28 December 2012 concerning State aid in favour of Dexia, DBB/Belfius and DMA, paragraph. 101.*
[6] *Cf. Press Release issued by Dexia on 19 September 2017, available at www.dexia.com.*
[7] *Cf. Press Release issued by Dexia on 21 July 2017, available at www.dexia.com.*
[8] *Cf. Decision by the European Commission dated 28 December 2012 approving the Dexia orderly resolution plan.*

C. Increase of the prudential requirements applicable in 2018

The European Central Bank (ECB) informed Dexia of the qualitative and quantitative regulatory capital requirements which will be applicable to Dexia SA and its main entities as from 1 January 2018, in accordance with Regulation (EU) No 1024/2013 of the Council dated 15 October 2013[9].

In this regard the level of the Total SREP capital requirement applicable to Dexia SA in 2018 has been set at 10.25% on a consolidated basis, compared to 9.875% in 2017.

The ECB informed Dexia that the tailored, pragmatic and proportionate prudential approach, taking account of Dexia's specific and unique situation as a bank in resolution, would be renewed in 2018. Nevertheless, that renewal is accompanied by a convergence towards the general supervisory framework, reflected by the strengthening of certain requirements:

- The requirement applicable by virtue of the Liquidity Coverage Ratio (LCR) amounts, as at 1 January 2018, to a minimum of 100% at company and consolidated levels. If this minimum level is not kept, Dexia will have to guarantee observance of a threshold of 80% at a consolidated level over the year 2018 and to inform the ECB thereof by submitting to it new LCR projections as well as a remediation plan.
- Dexia must nonetheless deduct from its CET1 regulatory capital the economic impact which might be generated by remediation on a failure to observe the constraint regarding large exposures. As at 1 January 2018, this related to one exposure and the deduction from regulatory capital is estimated at EUR 145 million for Dexia SA and EUR 185 million for Dexia Crédit Local[10].
- Finally, the ECB states that it expects Dexia to observe the leverage ratio. As at 31 December 2017, the leverage ratios of Dexia SA and Dexia Credit Local were 4.6% and 3.8% respectively, above the regulatory minimum of 3%.

[9] *Cf. Press Release issued by Dexia on 5 February 2018, available at www.dexia.com.*
[10] *Based on a calculation of own funds taking account of the estimated impact of the IFRS9 first-time adoption.*

2. Annual results 2017

A – *Presentation of Dexia SA's annual consolidated financial statements 2017*

a – Going concern

The condensed consolidated financial statements of Dexia SA as at 31 December 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 – Classification as "Activities held for sale"

In accordance with the IFRS 5 standard, Dexia Israel has been classified under "Activities held for sale" in the Dexia financial statements as at 31 December 2017.

c – Note 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 entered into force as from 1 January 2018, replacing the IAS 39 "financial instruments: accounting and valuation" standard.

Adoption of the standard by the Group proceeded in line with the planned timetable. Dexia expects the application of IFRS 9 to generate a positive total net impact on Group equity as at 1 January 2018, principally associated with the reversal of negative reserves in relation to financial assets previously classified as AFS. This positive impact will be partially offset by negative reserves relating to financial assets classified at fair value through equity (FVOCI) as well as by the negative impact of financial assets newly classified at fair value through profit or loss (FVTPL) due to their financial characteristics, and by the new provisions recognized for credit risk.

A detailed estimate will be given by the Group when it publishes its annual report.

B – Dexia Group consolidated results 2017

- *Net income Group share of EUR -462 million, including a negative contribution of EUR -64 million from accounting volatility elements and an impact of EUR -96 million from non-recurring elements*
- *Recurring result of EUR -302 million, including the impact of EUR -114 million as a result of the adjustment of accounting hedge relations*
- *Significant weight of taxes and regulatory contributions, in an amount of EUR -89 million over the year 2017*

a – Income statement for the period (non-audited figures)[11]

Consolidated income statement - ANC format		
EUR million	**2016**	**2017**
Net banking income	***506***	***-64***
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	*-407*	*-421*
Gross operating income	***99***	***-485***
Cost of risk	*140*	*33*
Net gains or losses on other assets	*54*	*2*
Pre-tax income	***293***	***-450***
Income tax	*42*	*-13*
Result from discontinued operations	*17*	*2*
Net income	***352***	***-461***
Minority interests	*-1*	*1*
Net income Group share	***353***	***-462***

During the year 2017, the Dexia Group booked net income Group share of EUR -462 million.

Over the year, net banking income was negative, at EUR -64 million. This amount not only includes the cost for carrying the assets, but also, in particular, impacts of the valuation of derivatives, results on the disposal of assets and provisions for legal risk.

Costs were EUR -421 million and included EUR -89 million of taxes and regulatory contributions.

Gross operating income was EUR-485 million.

The cost of risk and net gains and losses on other assets contributed positively to the result, in an amount of EUR +35 million, of which EUR +33 million attributable to the cost of risk. This positive amount is principally explained by reversals of provisions, in particular on assets disposed of during the year.

Considering these elements, pre-tax income was EUR -450 million.

Over the year, the tax charge was EUR -13 million.

Result from discontinued operations was EUR +2 million.

The income attributable to minority interests was EUR 1 million, leading to a net income Group share for the year 2017 of EUR -462 million.

[11] *As the activity of Dexia Israel is not considered a discontinued activity in the sense of the IFRS 5 standard, its income statement has not been presented in a separate line in the Group's consolidated income statement.*

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

The net income Group share of EUR -462 million is composed of the following elements:

- EUR -302 million attributable to recurring elements[12];
- EUR -64 million associated with accounting volatility elements[13];
- EUR -96 million generated by non-recurring elements[14].

In order to make these results easier to understand and to assess the momentum over the year, Dexia presents the quarterly evolution of the three different segments analytically retained separately by the Group.

Analytical presentation of 2017 results of the Dexia Group

EUR million	Recurring elements	Accounting volatility elements	Non-recurring elements	Total
Net banking income	**79**	**-64**	**-79**	**-64**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-400	0	-21	-421
Gross operating income	**-321**	**-64**	**-100**	**-485**
Cost of risk	33	0	0	33
Net gains or losses on other assets		0	2	2
Pre-tax income	**-288**	**-64**	**-98**	**-450**
Income tax	-13	0	0	-13
Net result from discontinued operations		0	2	2
Net income	**-301**	**-64**	**-96**	**-461**
Minority interests	1	0	0	1
Net income Group Share	**-302**	**-64**	**-96**	**-462**

12 Recurring elements: elements associated with the carry of assets such as portfolio income, funding costs, operating charges, cost of risk and taxes.
13 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) the valuation of OTC derivatives, the various impacts related to financial instruments held for trading and the variation of the WISE portfolio (synthetic securitisation of a portfolio of enhanced bonds).
14 Non-recurring elements: elements of an exceptional nature, not liable to be regularly reproduced, in particular including gains and losses, linked to credit spread, on the disposal of holdings and assets, costs and gains associated with litigation, restructuring costs.

b.1 – Recurring elements

Recurring elements			
EUR million	**H1 2017**	**H2 2017**	**2017**
Net banking income	**129**	**-50**	**79**
o/w Net interest margin	108	62	170
o/w Other	20	-111	-91
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-244	-156	-400
o/w Expenses excl. operational taxes	-159	-152	-311
o/w Operational taxes	-85	-4	-89
Gross operating income	**-115**	**-206**	**-321**
Cost of risk	-5	37	33
Net gains or losses on other assets	0	0	0
Pre-tax income	**-120**	**-168**	**-288**
Income tax	-46	34	-13
Net income	**-166**	**-135**	**-301**
Minority interests	4	-3	1
Net income Group share	**-171**	**-132**	**-302**

The net income Group share generated by recurring elements was EUR -302 million over the year 2017.

Net banking income in 2017 was EUR 79 million, and consisted of:

- The net interest margin, which includes income from asset portfolios and the funding cost, amounted to EUR +170 million. Over the year, income showed a falling trend from one half-year to the next, with the effect of the reduction of asset portfolios. At the same time, the funding cost followed a similar trend, considering the reduction of volumes to be refinanced, optimisation of the funding mix and favourable market conditions. The fall in the net interest margin from one half-year to the next is principally explained by the reduction of transformation income;
- Other income, in a negative amount of EUR -91 million. This negative income is principally due to an adjustment of accounting hedge relations, in order in particular to take account of the impact of asset disposals.

Costs were EUR -400 million, including an amount of EUR -89 million for taxes and regulatory contributions, for the most part booked in the first quarter, in application of the IFRIC 21 standard. Excluding these taxes and contributions, operating costs showed a falling trend, illustrating the cost control efforts undertaken by the Group.

The cost of risk had a positive impact over the year, at EUR 33 million, principally explained by reversals of provisions, in particular on assets disposed of. Taking account of the provisioning of residual exposures, the annual net impact of provisions related to the Commonwealth of Puerto Rico was EUR -58 million.

The tax charge is negative, at EUR -13 million.

b.2 – Accounting volatility elements

Accounting volatility elements had a negative impact of EUR -64 million. This amount is explained by the impact of variations in market parameters over the year, the unfavourable evolution of derivative valuation on the basis of an OIS curve, in part offset by the positive evolution of CVA and FVA. Moreover, disposals and early redemptions during the year had a positive impact on accounting volatility elements.

b.3 – Non-recurring elements

The contribution of non-recurring elements booked over the year was EUR -96 million. These elements consist in particular of:

- Losses associated with active balance sheet management (EUR -41 million over the year);
- A positive net impact of EUR 14 million from variations of provisions for legal risk;
- Provisions for restructuring costs of EUR -19 million;
- The impact of the breakdown of accounting hedge relations on enterprises linked to the Commonwealth of Puerto Rico, which amounted to EUR -54 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 -31,8 billion compared to the end of 2016, due to the asset portfolio reduction strategy and the improvement of the macroeconomic environment*
- *Dexia's Total Capital ratio at 20.4% at the end of June 2017, as a result of the reduction of risk-weighted assets*

a - Annual balance sheet evolution

As at 31 December 2017, the Group's consolidated balance sheet total was EUR 180.9 billion, down EUR -31.8 billion on 31 December 2016 as a result of a dynamic policy of asset portfolio reduction combined with the evolution of the macroeconomic environment (cf. section "Significant events and transactions").

Over the year, at a constant exchange rate, the reduction of the assets side of the balance sheet was principally associated with:

- The reduction of the asset portfolio by EUR -20 billion, of which EUR -10.9 billion associated with asset disposals or early redemptions and EUR -9.1 billion with natural portfolio amortisation;
- A decline of the fair value of assets and derivatives of EUR -9.7 billion;
- A EUR -6.5 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 +7.3 billion increase of the Group's liquidity reserve placed on deposit with central banks, against a background of the reduction of its access to Eurosystem funding.

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

- A EUR -15.9 billion reduction of the stock of market and European Central Bank funding;
- A EUR -11.2 billion decline of the fair value of liabilities and derivatives.

The impact of exchange rate variations on the evolution of the balance sheet amounted in total to EUR -2.8 billion over the year.

b - Solvency

As at 31 December 2017, Dexia's Common Equity Tier 1 capital was EUR 6.5 billion, against EUR 7.0 billion as at 31 December 2016. This fall is principally explained by the negative net result for the financial year.

Gains and losses recognised directly in equity stood at EUR -4.3 billion as at 31 December 2017, a strong improvement of EUR +1.4 billion over the year, principally as a result of the tightening of credit spreads on sovereign bonds, in particular from Italy and Portugal, and the appreciation of the euro. The amount deducted from regulatory capital for the AFS reserve was EUR -2.8 billion as at 31 December 2017, whilst the amount was EUR -2.7 billion as at 31 December 2016, despite the phased deduction (80% in 2017 against 60% in 2016, in accordance with the schedule defined by the CRD IV Directive).

At the end of 2017, risk-weighted assets stood at EUR 33.4 billion, of which EUR 31.4 billion for credit risk, EUR 980 million 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. The sharp EUR 9.6 billion fall of credit risk-weighted assets was for the most part a result of the reduction of the asset portfolio, of a favourable exchange rate and of a reduction of the fair value of exposures.

Considering these elements, Dexia's Common Equity Tier 1 ratio was 19.5% as at 31 December 2017, against 16.2% at the end of 2016. The Total Capital ratio was 20.4%, 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 also respect the minimum requirements, at 16.1% and 17.0% respectively as at 31 December 2017.

B – Evolution of the Dexia Group's liquidity situation

- *Significant reduction of the funding volume*
- *Optimisation of the funding mix towards less costly funding sources in a context marked by abundant liquidity*
- *No recourse to Eurosystem funding since September 2017*

In 2017, market conditions were marked by a gradual rise of interest rates, combined with a certain volatility on the markets, in particular associated with the electoral calendar in France.

Against that background, Dexia continued its policy of prudent liquidity management whilst benefiting from a reduction of its funding requirement by the increase of interest rates and the strengthening of the euro. At the end of December 2017, total funding raised by the Group was EUR 124.8 billion, against EUR 146.5 billion at the end of December 2016, a consequence of the EUR -6.2 billion fall of the net amount of cash collateral paid by Dexia to its derivatives counterparties (EUR 26.5 billion as at 31 December 2017) and the reduction of the asset portfolio.

The Dexia Group profited from favourable market conditions, marked by abundant liquidity, to optimise its funding mix whilst preferring recourse to less costly funding sources.

Over the year, Dexia Crédit Local successfully launched various long-term public transactions in euros, in US dollars and pounds sterling, raising EUR 9.9 billion, and executed almost EUR 4 billion additionally in private placements. Short-term funding activity in the guaranteed format was also sustained, with a relatively long average maturity of 8.4 months.

Overall outstanding of guaranteed debt was down slightly, to EUR 67.6 billion as at 31 December 2017, against EUR 71.4 billion at the end of December 2016.

Short and long-term secured market funding remained considerable. The reduction of outstanding, falling from EUR 58.4 billion at the end of 2016 to EUR 48.9 billion as at 31 December 2017, is proportionate to the reduction of the funding requirement and the stock of assets eligible for this type of funding.

On 21 July 2017, the European Central Bank announced the end of recourse to Eurosystem funding for wind-down entities as from 31 December 2021 and limited the Group's recourse to the Eurosystem to an amount of EUR 5.2 billion for the transitional period. As at 31 December 2017, the Group no longer had recourse to that type of funding.

The ECB decision also resulted in a reduction of the liquidity buffer, combined with a change of its composition. At the end of December 2017, the Dexia Group had a liquidity reserve of EUR 16.4 billion, of which EUR 10.5 billion in the form of deposits with central banks. To recall, at the end of 2016, the Dexia Group had a liquidity reserve of EUR 18.2 billion, of which EUR 3.4 billion in the form of deposits with central banks.

The Group's Liquidity Coverage Ratio (LCR) was 111%.

Appendices

Appendix 1 – Going concern

The consolidated financial statements of Dexia as at 31 December 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 30 June 2017 and validated by the Board of Directors of Dexia on 14 November 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 reduce to zero its reliance on central bank funding as at 31 December 2017[15]. Furthermore, Dexia implements a prudent liquidity management and maintains important liquidity reserves.

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 Dexia 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 collateral paid by Dexia to its derivatives counterparties[16] or an impact on valuations of the financial assets and liabilities and OTC derivatives, fluctuations of which are booked in the income statement

[15] *On 21 July 2017 the European Central Bank announced the end of access to the Eurosystem for wind-down entities as from 31 December 2021.*

[16] *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.*

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[17] (non-audited figures)

Balance sheet key figures		
EUR m	**31/12/2016**	**31/12/2017**
Total assets	**212,771**	**180,938**
of which		
Cash and central banks	4,222	10,720
Financial assets at fair value through profit or loss	17,781	13,188
Hedging derivatives	6,830	4,985
Financial assets available for sale	16,568	10,830
Customer loans and advances	119,206	99,264
Accruals and other assets	36,884	30,550
Non current assets held for sale	0	2,105
Total liabilities	**208,197**	**175,536**
of which		
Central banks	690	0
Financial liabilities at fair value through profit or loss	18,676	14,193
Hedging derivatives	33,796	27,858
Interbank borrowings and deposits	40,238	31,016
Debt securities	98,524	89,654
Liabilities included in disposal groups held for sale	0	1,894
Total equity	**4,574**	**5,402**
of which		
Equity, Group share	4,147	4,992

Appendix 3 – Capital adequacy (non-audited figures)

EUR m	**31/12/2016**	**31/12/2017**
Common Equity Tier 1	7,011	6,496
Total capital	7,305	6,811
Risk weighted assets	43,356	33,351
Common equity Tier 1 ratio	16.2%	19.5%
Total capital ratio	16.8%	20.4%

[17] *In accordance with the IFRS 5 standard, Dexia Israel has been classified under "Activities held for sale" in the Dexia financial statements as at 31 December 2017. The assets and liabilities of Dexia Israel have been reclassified in a separate line in the Groups' consolidated balance sheet.*

Appendix 4 – Exposure to credit risk (non-audited figures)

Dexia Group exposure by geographic region		
EUR m	**31/12/2016**	**31/12/2017**
France	25,484	28,201
Italy	25,512	23,002
United Kingdom	25,461	22,178
Germany	20,689	17,835
United States	23,897	17,483
Spain	14,154	10,136
Japan	7,479	6,152
Portugal	3,905	3,924
Canada	2,655	2,071
Belgium	2,035	1,648
Austria	1,118	1,058
Central and Eastern Europe	1,843	954
Scandinavian countries	1,229	528
Southeast Asia	620	451
South and Central America	490	430
Switzerland	399	357
Turkey	367	169
Netherlands	390	130
Greece	128	88
Luxembourg	85	38
Ireland	103	10
Hungary	275	2
Others	6,347	5,039
Total	**164,665**	**141,881**

Dexia Group exposure by category of counterparty		
EUR m	**31/12/2016**	**31/12/2017**
Local public sector	89,298	75,621
Central governments	25,458	29,701
Financial institutions	20,123	13,174
Project finance	13,515	11,652
ABS/MBS	6,600	4,424
Corporate	7,607	5,807
Monolines	2,062	1,500
Individuals, SME and self-employed	2	1
Total	**164,665**	**141,881**

Group exposure by rating (internal rating system)		
	31/12/2016	**31/12/2017**
AAA	17.6%	21.0%
AA	18.5%	14.9%
A	24.2%	25.2%
BBB	29.4%	29.3%
Non Investment Grade	9.2%	8.4%
D	0.9%	0.8%
Not Rated	0.3%	0.4%
Total	**100%**	**100%**

Appendix 5 – Sector exposure of the Group as at 31 December 2017 (EAD on end counterparties – non-audited figures)

Group sector 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*
France	28,201	12,915	3,064	1,989	0	10,233	0
Italy	23,002	9,739	399	609	9	12,247	0
United Kingdom	22,178	11,038	8,220	1,019	1,471	61	369
Germany	17,835	15,165	177	2,286	0	208	0
USA	17,483	9,684	611	2,514	2,399	1,144	1,131
Spain	10,136	5,489	1,777	2,067	395	407	0
Japan	6,152	4,511	0	1,055	0	585	0
Portugal	3,924	1,698	86	14	75	2,050	0
Poland	488	1	0	0	0	486	0
Turkey	169	2	0	167	0	0	0
Greece	88	3	85	0	0	0	0
Ireland	10	0	7	2	0	0	0
Hungary	2	2	0	0	0	0	0

Appendix 6 – Asset quality (non-audited figures)

Asset quality		
EUR m	**31/12/2016**	**30/12/2017**
Impaired assets	1,064	877
Specific impairments(1)	*321*	*257*
Coverage ratio(2)	*30.2%*	*29.3%*
Collective provisions	416	331

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

Appendix 7 – Ratings

Ratings as at 28 February 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

The most significant developments in 2017 in relation to pending 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*).

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 case 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 Supreme Court in London also rejected Prato's specific application to lodge a direct appeal against the latter decision and confirmed the Court of Appeal decision.

At the same time, in the criminal proceedings commenced against Dexia Crediop and a former employee before the Criminal Court in Prato, Dexia Crediop and its former employee were acquitted in full on all the charges made against them. The plaintiffs have lodged an appeal against the judgment before the Court of Appeal in Florence.

Throughout 2017, Dexia Crediop also concluded various out-of-court settlement agreements in which the parties, *inter alia*, (i) confirmed that the swaps were valid and binding since their inception, and (ii) agreed to terminate all pending legal proceedings.

Mixed decisions of Dutch Courts in litigation relating to Dexia Nederland

The Dutch Courts passed various judgements on share leasing cases involving Dexia Nederland (DNL).

The Supreme Court (*Hoge Raad*) passed a judgement on the technical method of imputing the impact of lease agreements 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 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. It further confirmed that spouses who had cancelled the share leasing agreement, but did not opt out from the so-called WCAM procedure (i.e. the procedure which declared collectively binding the joint settlement agreement reached in 2005), are no longer entitled to any indemnification by DNL.

The Court of Appeal in Amsterdam passed an important judgement which was positive for DNL regarding the factual non-applicability of certain principles set forth by the Supreme Court in 2016, in cases where share leasing agreements had been sold through intermediaries. This decision has been appealed by the claimants before the Supreme Court. Other courts of appeal have not yet taken a final stance as to the interpretation and application of the 2016 Supreme Court decision.

The Court of Appeal in Arnhem-Leeuwarden confirmed that an advice given by (an internal advisor of) DNL, if any, should not have an impact on the split of damages between DNL and the client. This decision has been appealed by the claimants before the Supreme Court.

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