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Dexia Group consolidated results H1 2018[1]

Net income of EUR -419 million, impacted by the increase of regulatory taxes and contributions and accounting volatility elements

- *Net recurring income of EUR -173 million, stable compared to the first half-year 2017 and integrating the significant impact of regulatory taxes and contributions (EUR -99 million), partially offset by positive cost of risk (EUR +50 million)*
- *Negative impact of accounting volatility elements (EUR -198 million); non-recurring elements (EUR -48 million) principally associated with the proactive strategy of balance-sheet reduction*

Extremely positive effect of the first-time application of the IFRS 9 accounting standard on the Group's regulatory capital

- *Impact of EUR +2.1 billion on the Group's Common Equity Tier 1 Capital as at January 2018*
- *Dexia's Total Capital ratio at 25.7% at the end of June 2018, against 20.4% as at 31 December 2017*

Ongoing dynamic management of the Group's resolution

- *Balance sheet total of EUR 168.3 billion as at 30 June 2018, down EUR -12.6 billion over the half-year, principally linked to the reduction of the asset portfolio (EUR -7.6 billion)*
- *Reduction of the Group's geographic footprint: sale of Dexia Israel, closure of the Dexia Crédit Local branch in Lisbon and continuing restructuring of the Madrid branch and Dexia Kommunalbank Deutschland*
- *Implementation of the agreement to outsource back office activities with Cognizant*
- *19% reduction of the Group work force, to 808 staff members as at 30 June 2018*

Evolution of governance

- *Appointment of Gilles Denoyel as Director and Chairman of the Board of Directors of Dexia on 16 May 2018*
- *Succession of Johan Bohets, who expressed his wish to leave the Group, and appointment of Giovanni Albanese as Dexia's Chief Risk Officer*

Wouter Devriendt, CEO of Dexia, stated, "*Despite the volatility of the macroeconomic environment and an increase of regulatory taxes and contributions, which represent approximately three quarters of the loss made by the Group in the first half-year 2018, we ceaselessly pursued our objective of reducing the Group's balance sheet, risks and geographic footprint. In particular we disposed of our subsidiary in Israel and closed our branch in Lisbon, and our risk on Puerto Rico and Turkey is now negligible. Thanks to the considerable efforts made previously and the entry into force of IFRS 9, we now have robust solvency and liquidity, although the Group remains sensitive to certain external factors. The teams continue their remarkable work of managing this complex resolution and I thank them for their determination.*"

Gilles Denoyel, Chairman of the Board of Directors of Dexia, stated, "*During the first half-year 2018, we continued to roll out our strategic roadmap, whilst working on convergence towards the general supervisory framework requested by the European Central Bank. The achievements of the past few months have been remarkable. In addition to the Group's dynamic risk and balance sheet management, our governance is evolving. Johan Bohets has expressed his desire to give a new direction to his career, and the Board of Directors has appointed Giovanni Albanese as the Group's Chief Risk Officer. I would like to thank Johan most sincerely for his unwavering involvement in the resolution of Dexia for so many years. I also welcome Giovanni. His expertise in the different areas of risk management and his knowledge of the banking sector, especially in Italy, are undeniable assets for our Group.*"

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

Introduction

During the first half-year 2018, Dexia actively continued in its efforts to reduce and to simplify its balance sheet, in particular including the sale of its holding in its subsidiary in Israel and the closure of the Dexia Crédit Local branch in Portugal. Despite fears concerning the possible escalation of protectionist commercial measures, the Group continued the tactical reduction of its commercial asset portfolio. Furthermore, the increased volatility in the euro zone and disruptions on the pound sterling market against the background of Brexit led to severe volatility over the half-year. The first-time application of the IFRS 9 accounting standard, with its extremely positive effect on the Group's regulatory capital, also constitutes one of the significant elements of the first half-year.

In accordance with the legislation in force, for the period closed on 30 June 2018, Dexia is publishing a press release in relation to the condensed consolidated financial statements. The Dexia financial report for H1 2018 is published on 7 September 2018 in its entirety.

1. Significant events and transactions

- *Dynamic strategy to reduce the balance sheet and risks*
- *Disposal of Dexia Israel and continuing activity to simplify the international network*
- *Implementation of the agreement for the outsourcing of back office activities with Cognizant*

A. Progress on the Group's orderly resolution plan

Dynamic management of the balance sheet and risk reduction

In the first half-year 2018, Dexia continued its proactive strategy to reduce the size of the balance sheet. This was reflected by a reduction of the commercial asset portfolio by EUR 7.6 billion over the half-year, including EUR 3.8 billion of disposals, EUR 0.4 billion of early redemptions and EUR 3.4 billion of natural amortisation.

As part of its credit risk reduction, the Group sold almost all of its exposure in relation to the Commonwealth of Puerto Rico. Dexia's residual exposure to the Commonwealth of Puerto Rico amounted to EUR 5 million as at 30 June 2018. It is fully covered by a high-quality monoline and matures in 2020.

Furthermore, the Group's exposure to Turkey is now insignificant, as the last subordinated loans of its former subsidiary DenizBank were repaid at the end of February 2018.

Finally, the Group took advantage of favourable market conditions in particular to dispose of Japanese sovereign exposures, French and American municipal loans, Spanish covered bonds and ABS on American student loans.

Disposal of the 58.9% holding in Dexia Israel Bank

On 18 March 2018, Dexia Crédit Local disposed of all of its shares in Dexia Israel Bank (Dexia Israel). The sale took place at a price of NIS 674 per share and for a total amount of approximately EUR 82 million. This disposal ends Dexia's presence in Israel, where the Group had been active since 2001.

With this sale, Dexia successfully completed the mandatory programme to dispose of its main commercial franchises, as part of the undertakings made by the Belgian, French and Luxembourg States within the framework of the orderly resolution plan approved by the European Commission in December 2012. It therefore marks the end of an important stage in the implementation of Dexia's orderly resolution plan.

Simplification of the international network

In 2016, from the perspective of simplifying its operational structure, the Dexia Group proceeded with the cross-border merger by absorption of Dexia Crédit Local and its subsidiary Dexia Sabadell as well as the simultaneous creation of two new branches of Dexia Crédit Local in Spain and in Portugal. On 29 June 2018, the Group closed the Dexia Crédit Local branch in Lisbon, after finalising the transfer of assets to its Paris office.

The same centralisation work is under way for the Madrid branch, and should enable it to be closed at the latest during the first half-year 2019.

Furthermore, the Dexia Group also transferred a bond portfolio of EUR 3.6 billion in non-German assets and associated hedge instruments from Dexia Kommunalbank Deutschland (DKD) to the Dexia Crédit Local branch in Dublin. In the wake of that restructuring, and as mentioned in the Dexia Annual Report 2017, various strategic options for the future of DKD are being studied, in particular including the sale of the entity.

Reinforcing the operating model: implementation of the service outsourcing agreement with Cognizant

Implementation of the service outsourcing agreement, signed between Dexia and Cognizant on 4 October 2017, continued during the first half-year 2018 with the transfer, on 1 May 2018, of the back office market and credit teams to Cognizant. The IT teams were transferred in November 2017. In total, 133 Dexia staff members were transferred.

Dexia also chose to entrust the renewal and management of its IT system infrastructure to Cognizant. This transaction was the object of a separate agreement, also for a term of ten years. Its implementation will extend until the second quarter 2019 and will provide the Group with better-performing IT tools and strengthen operational continuity. On the other hand, it will facilitate Cognizant actions, which in turn would create synergies in IT infrastructure and applications.

B. Evolution of Group governance

On 16 May 2018, Gilles Denoyel was appointed director and chairman of the Board of Directors of Dexia, replacing Robert de Metz, whose mandate ended. Gilles Denoyel is also director and chairman of the Board of Directors of Dexia Crédit Local.

On 6 September 2018, the Board of Directors of Dexia appointed Giovanni Albanese as executive director and Chief Risk Officer of Dexia, replacing Johan Bohets, who had expressed his wish to leave the Group.

As the governance of Dexia and Dexia Crédit Local is integrated, Giovanni Albanese is also director, executive vice-president and Chief Risk Officer of Dexia Crédit Local.

Of Italian nationality, Giovanni Albanese has sound experience in risk management, acquired within the Unicredit Group, and over the last twelve years has occupied various posts in different risk management fields. Before that, he worked at McKinsey and with various firms of consultants. He has a degree in Engineering from the La Sapienza University in Rome and the University of South California, as well as an MBA from the University of Bocconi.

C. Non-renewal of the specific approach to supervision applied to Dexia as from 2019

On 16 July 2018[2], the European Central Bank (ECB) informed Dexia that the specific approach to the tailored, pragmatic and proportionate supervision applied to the Dexia Group since 2015 would not be renewed for 2019. This decision is a part of the trend of convergence of the requirements applied to Dexia towards the general supervision framework which began in 2018.

As from 1 January 2019, Dexia must therefore meet all the regulatory requirements applicable to banking institutions supervised by the ECB, at each level of the Group's consolidation. The observance of the constraint regarding large exposures will continue to be applied as described in the communication dated 5 February 2018, i.e. the deduction from its CET1 regulatory capital of the economic impact which might be generated by remediation on a failure to respect that ratio[3].

2. Results H1 2018

A – *Presentation of Dexia's condensed consolidated financial statements as at 30 June 2018*

a – Going concern

The condensed consolidated financial statements of Dexia as at 30 June 2017 were established in accordance with the accounting rules applicable to a going concern. This relies on a certain number of assumptions made in the business plan underlying the resolution of the Dexia Group, developed in the Appendix to this Press Release.

b – Replacement of the IAS 39 "Financial instruments: accounting and valuation" accounting standard by the IFRS 9 "Financial instruments" accounting standard as at 1 January 2018

The IFRS 9 "Financial instruments" accounting standard became applicable on 1 January 2018, replacing IAS 39. The options retained by the Group and the impacts of the first-time application of the accounting standard for the Dexia Group are detailed in the Appendix to this Press Release.

B - Dexia Group consolidated results for H1 2018

- *Net income Group share of EUR -419 million, including net recurring income (EUR -173 million), a negative contribution from accounting volatility elements (EUR -198 million) and non-recurring elements (EUR -48 million)*
- *Net recurring income including the significant impact of regulatory taxes and contributions up to EUR -99 million, partially offset by a positive cost of risk at EUR +50 million*

[2] *Cf. Dexia Press Release dated 26 July 2018, available at www.dexia.com.*
[3] *Cf. Dexia Press Release dated 5 February 2018, available at www.dexia.com.*

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

Consolidated income statement - ANC format			
(in EUR million)	*H1 2018 IFRS 9*	*H1 2017* IAS 39*	*2017* IAS 39*
Net banking income	***-198***	***9***	***-64***
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	*-250*	*-252*	*-421*
Gross operating income	***-448***	***-243***	***-485***
Cost of credit risk	*50*	*-5*	*33*
Net gains or losses on other assets	*8*	*0*	*2*
Net result before tax	***-390***	***-248***	***-450***
Income tax	*-34*	*-46*	*-13*
Result from discontinued operations, net of tax	*0*	*2*	*2*
Net income	***-424***	***-292***	***-461***
Minority interests	*-5*	*4*	*1*
Net income, Group share	***-419***	***-296***	***-462***

** 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.*

Over the first half-year 2018, the Dexia Group booked net income Group share of EUR -419 million.

Net banking income was EUR -198 million. It is fully attributable to the evolution of market parameters, which in particular affect the calculation of CVA, DVA and FVA or the valuation of accounting inefficiencies, the other items offsetting each other over the period.

Costs reached EUR -250 million, compared to EUR -252 million a year earlier. Of that amount, EUR-101 million corresponded to the booking of regulatory taxes and contributions, for the most part in the first quarter in application of IFRIC 21. This amount is up EUR 16 million on the first half-year 2017. Excluding the impact of regulatory taxes and contributions, operating charges were down on the previous half-year.

Gross operating income amounted to EUR -448 million.

Positive cost of risk, in an amount of EUR +50 million, is principally explained by reversals of impairments after the disposal of exposures in relation to the Commonwealth of Puerto Rico, as well as the revaluation of impairments on exposures classified in stage 2 (cf. Appendix 2 dedicated to the first-time application of the IFRS 9 accounting standard).

Net gains and losses on other assets also made a positive contribution to the result, at EUR +8 million. They represent the impact of the sale of Dexia Israel.

Considering these elements, net pre-tax income was EUR -390 million.

Over the half-year the tax charge was EUR -34 million, of which EUR -30 million in deferred taxes associated with asset transfers within the Group.

The income attributable to minority interests was EUR -5 million, leading to net income Group share for the first half-year 2018 of EUR -419 million.

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

The net income Group share of EUR -419 million is composed of the following elements:

- EUR -173 million attributable to recurring elements[4];
- EUR -198 million associated with accounting volatility elements[5];
- EUR -48 million generated by non-recurring elements[6].

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 retained by the Group separately.

Analytical presentation of the H1 2018 results of the Dexia Group

(in EUR million)	Recurring elements	Accounting volatility elements	Non-recurring elements	Total
Net banking income	***46***	***-198***	***-46***	***-198***
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	*-240*	*0*	*-10*	*-250*
Gross operating income	***-195***	***-198***	***-56***	***-448***
Cost of credit risk	*50*	*0*	*0*	*50*
Net gains or losses on other assets	*0*	*0*	*8*	*8*
Net result before tax	***-145***	***-198***	***-48***	***-390***
Income tax	*-34*	*0*	*0*	*-34*
Net income	***-179***	***-198***	***-48***	***-424***
Minority interests	*-5*	*0*	*0*	*-5*
Net income, Group share	***-173***	***-198***	***-48***	***-419***

b.1 – Recurring elements

The net income Group share from recurring elements was EUR -173 million in the first half-year 2018, stable compared with the first half-year 2017.

Over this period, net banking income was EUR +46 million, fully reflecting the net interest margin, which corresponds to the asset carrying cost as well as the result of the Group's transformation. The net interest

[4] *Recurring elements associated with the carry of assets such as portfolio income, funding costs, operating charges, cost of risk and taxes.*
[5] *Accounting volatility 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 relating to financial instruments booked at fait value through profit and loss (in particular non-SPPI assets) and the valuation of derivatives hedging the WISE portfolio (synthetic securitisation of a portfolio of enhanced bonds).*
[6] *Non-recurring elements, in particular gains and losses on the disposal of holdings and instruments booked at amortised cost or at fair value through equity, costs and gains associated with litigation, cost and indemnities induced by the exit of projects or contracts, restructuring costs or exceptional operational taxes.*

margin is down, particularly as a result of the reduction of the asset portfolio, the deconsolidation of Dexia Israel and the lengthening of funding maturities.

Costs were EUR -240 million. This amount included EUR -99 million in regulatory taxes and contributions, of which the contribution of Dexia Crédit Local and its subsidiaries in Germany and Italy to the Single Resolution Fund (EUR -84 million) and the tax for systemic risk (EUR -4 million). Excluding these taxes and contributions, operating costs were EUR -142 million, down 10% on the first half-year 2017.

The cost of risk was EUR +50 million. This positive amount is principally explained by reversals of impairments after the disposal of exposures associated with the Commonwealth of Puerto Rico, as well as by the revaluation of impairments on exposures classified in stage 2 (cf. Appendix 2 dedicated to the first-time application of the IFRS 9 accounting standard).

The tax charge was negative, at EUR -34 million.

Recurring elements			
(in EUR million)	***H1 2018 IFRS 9***	***H1 2017 IAS 39***	***2017 IAS 39***
Net banking income	***46***	***129***	***79***
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	***-240***	***-244***	***-400***
o/w Expenses excl. operational taxes	*-142*	*-159*	*-311*
o/w Operational taxes	*-99*	*-85*	*-89*
Gross operating income	***-195***	***-115***	***-321***
Cost of credit risk	*50*	*-5*	*33*
Net result before tax	***-145***	***-120***	***-288***
Income tax	*-34*	*-46*	*-13*
Net income	***-179***	***-166***	***-301***
Minority interests	*-5*	*4*	*1*
Net income, Group share	***-173***	***-171***	***-302***

b.2 – Accounting volatility elements

Accounting volatility elements had a negative impact of EUR -198 million. This amount is explained by the impact of variations of market parameters over the half-year, in particular associated with the valuation of derivatives, marked by the unfavourable evolution of BOR/OIS spreads in euro and pound sterling and Cross Currency Basis Swaps EUR/GBP. The CVA is also negative, as a result of the widening of credit spreads, particularly on banking counterparties.

b.3 – Non-recurring elements

Non-recurring elements booked over the half-year amounted to EUR -48 million and in particular included:

- losses associated with asset disposals (EUR -48 million), particularly American, Japanese and Spanish assets;
- allocations and reversals of provisions for litigation, the net impact of which was EUR +5 million;
- provisions for restructuring costs in an amount of EUR -4 million;
- an exceptional contribution from Dexia Crediop to the Italian national resolution fund (EUR -3 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 12.6 billion compared to the end of 2017, linked to the asset portfolio reduction strategy, the evolution of interest rate parameters and the sale of Dexia Israel*
- *Extremely positive impact of the first-time application of the IFRS 9 accounting standard on the Group's regulatory capital*
- *Dexia's Total Capital ratio at 25.7% at the end of June 2018, against 20.4% as at 31 December 2017*

a - Half-yearly balance sheet evolution

As at 30 June 2018, the Group's consolidated balance sheet total was EUR 168.3 billion, against EUR 180.9 billion as at 31 December 2017. The sharp fall induced by the dynamic asset portfolio reduction policy and the evolution of the macroeconomic environment was partially offset by the impact of the first-time application of the IFRS 9 accounting standard (EUR +2.7 billion) (cf. Appendix 2 dedicated to the first-time application of the IFRS 9 accounting standard).

Over the half-year, at a constant exchange rate and excluding the impact of the first-time application of IFRS 9, the reduction of balance sheet assets is principally attributable to:

- the EUR -7.6 billion reduction of the commercial portfolio, of which EUR -4.2 billion attributable to asset disposals or early redemptions and EUR -3.4 billion to natural portfolio amortisation;
- a fall in the fair value of assets and derivatives of EUR -4.3 billion;
- a EUR -2.0 billion reduction of the amount of cash collateral paid by the Group to its derivatives counterparties;
- a EUR -2.0 billion reduction linked to the sale of Dexia Israel;
- a slight reduction (EUR -0.9 billion) of the liquidity buffer established by the Group and placed on deposit with central banks.

On the liabilities side, at a constant exchange rate and excluding the impact of the first-time application of IFRS 9, the evolution of the balance sheet is principally reflected by:

- a EUR -10.0 billion reduction of the market funding stock;
- a EUR -3.9 billion fall in the fair value of liabilities and derivatives;
- a EUR -2 billion reduction linked to the sale of Dexia Israel.

The impact of exchange fluctuations on the evolution of the balance sheet was slightly positive, at EUR +0.5 billion over the half-year.

b - Solvency

As at 30 June 2018, the Dexia Group's Common Equity Tier 1 capital was EUR 8.2 billion, against EUR 6.5 billion as at 31 December 2017. The impact associated with the first-time application of the IFRS 9 accounting standard as at 1 January 2018 was EUR 2.1 billion. (cf. Appendix 2 dedicated to the first-time application of the IFRS 9 accounting standard).

In addition to this extremely positive impact, the Group's Common Equity Tier 1 capital as at 30 June 2018 was adversely affected by the negative net result for the financial year (EUR -419 million). The prudential deduction for the persistent surplus of the Group's large exposures, under the requirements of the European Central Bank[7], amounted to EUR -55 million.

Risk-weighted assets were down over the half-year, at EUR 32.7 billion as at 30 June 2018, of which EUR 30.0 billion for credit risk, EUR 1.8 billion for market risk and EUR 1 billion for operational risk.

Considering these elements, Dexia's Common Equity Tier 1 ratio was 25.0% as at 30 June 2018, against 19.5% at the end of 2017. The Total Capital ratio was 25.7%, against 20.4% at the end of 2017, a level higher than the minimum 12.125% (after taking account of the capital conservation buffer of 1.875%) imposed for the year 2018 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 meet the minimum requirements, at 21.6% and 22.1% respectively as at 30 June 2018.

B –Evolution of the Dexia Group's liquidity situation

- *Significant reduction of the funding volume in the first half-year 2018*
- *Ongoing strategy of optimising the funding mix, marked by an extension of funding maturities*
- *Absence of recourse to Eurosystem funding since September 2017*

In the first half-year 2018, market conditions were marked by a continuing rise of US dollar interest rates and a stabilisation of euro interest rates, combined with a certain degree of market volatility, associated in particular with political uncertainty in Italy.

Against that background, Dexia continued its policy of cautious liquidity management and optimisation of its funding mix. At the end of June 2018, the total funding raised by the Group amounted to EUR 113.4 billion, against EUR 124.8 billion at the end of December 2017, a consequence of the reduction of the asset portfolio and the EUR -2.4 billion fall in the net amount of cash collateral paid by Dexia to its derivatives counterparties (EUR 24.1 billion as at 30 June 2018).

[7] *Cf. Dexia Press Releases dated 5 February and 26 July 2018, available at www.dexia.com.*

Over the half-year, Dexia Crédit Local successfully launched various long-term public transactions in euro, US dollar and pound sterling, enabling it to raise EUR 5.9 billion, at a competitive funding cost. Short-term guaranteed funding activity was also sustained, with an average maturity extending to 9.7 months.

Global outstanding of guaranteed debt was down slightly at EUR 66.3 billion as at 30 June 2018, against EUR 67.6 billion as at 31 December 2017.

Furthermore, secured funding activity was down sharply, from EUR 48.9 billion at the end of 2017 to EUR 40.3 billion under the effect of the reduction of funding requirements and the stock of assets eligible to such types of operations. This development falls within the strategy of optimising the Group's funding mix, which is reflected in particular by the cessation of Dexia Crediop's domestic repo platform. Disruptions on the Italian market had no material impact on secured funding transactions on those securities.

The Group has made not use of central bank funding since September 2017.

As at 30 June 2018, the Dexia Group had a liquidity reserve of EUR 18.6 billion, including EUR 9.7 billion in the form of deposits with central banks.

On that same date, the Group's Liquidity Coverage Ratio (LCR) was 200%, against 111% as at 31 December 2017. The Net Stable Funding Ratio (NSFR), estimated on the basis of the latest CRR amendment proposals, would be above the target threshold of 100%, a result of the Group's efforts since 2013 to improve its funding profile.

Appendices

Appendix 1 – Going concern

The condensed consolidated financial statements of Dexia as at 30 June 2018 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, decided upon by the European Commission in December 2012. They are listed below:

- The macroeconomic hypotheses underlying the business plan are revised as part of the half-yearly reviews of the overall plan. The update made on the basis of market data observable as at 31 December 2017 and validated by the Board of Directors of Dexia on 27 June 2018 integrates the regulatory developments known to date, including the final version of the CRD IV Directive. It also takes account of the extremely positive impact on the Dexia Group's regulatory capital of the first-time application of the IFRS 9 accounting standard as from 1 January 2018, with Dexia's Total Capital Ratio at 25.7% at the end of June 2018. Finally it takes account of the non-renewal, as from 1 January 2019, of the specific approach implemented by the European Central Bank for the supervision of the Dexia Group[8].
- The ongoing resolution assumes that Dexia retains a sound funding capacity, relying 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 the end of 2012, Dexia has considerably reduced its funding requirement, diversified its access to different funding sources and taken advantage of favourable market conditions to extend the maturity of its liabilities, with a view to the prudent management of its liquidity. In particular, this enables the Group to maintain a level of liquidity reserves which is deemed appropriate considering the restriction of access to European Central Bank funding announced on 21 July 2017[9]. The latest update of the business plan takes account of a revision of the funding plan relying on the last observable market conditions.
- The business plan assumes the maintenance of the banking licences of the various entities and the rating of Dexia Crédit Local.

Regular revisions of the business plan lead to adjustments to the original plan and over time involve a significant change of the Group's resolution trajectory as initially anticipated, particularly in terms of profitability, solvency and funding structure. At this stage, they do not raise any question as to the nature or the fundamentals of the resolution, which justifies the decision to establish the financial statements in accordance with "going concern" principles.

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

- In particular, this plan is likely to be impacted by new developments in accounting and prudential rules.
- The Dexia Group is also sensitive to the evolution of its macroeconomic environment and to market parameters, particularly exchange rates, interest rates and credit spreads. An unfavourable evolution of these parameters over time could weigh on the Group's liquidity and its solvency position, for instance by increasing the amount of cash collateral paid by Dexia to its derivatives counterparties or an impact on the valuation of 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 level of the Group's regulatory capital.

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[8] *Cf. Press Release issued by Dexia on 26 July 2018, available at www.dexia.com*

[9] *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.*

- If market demand for government-guaranteed debt were to decline, Dexia might need to turn to more costly funding sources which would directly impact the profitability assumed in the original business plan;
- Finally, the Group is exposed to certain operational risks, specific to the resolution environment in which it operates.

Appendix 2 – First-time application of the IFRS 9 accounting standard as at 1 January 2018

The IFRS 9 "Financial Instruments" accounting standard came into force on 1 January 2018, replacing the standard IAS 39. It has three aspects:

- The first relates to the classification and valuation of financial instruments;
- The second relates to the financial asset provisioning model;
- The third relates to hedge accounting.

Classification and valuation of financial assets

The IFRS 9 accounting standard provides for classification and valuation of assets depending on the management model retained by the bank and the characteristics of the assets concerned.

Management model

The choice of management model under IFRS 9 has an impact on the possibilities for classification of financial assets authorised by the standard and, as a consequence, on their mode of valuation. Three management models are retained by the IFRS 9 accounting standard:

- "Hold to collect" model, with financial assets held with a view to collecting contractual cash flows;
- "Hold to collect and sell" model, with financial assets held with a view to collecting contractual cash flows, as well as disposal;
- "Other" model, in the case where the management intention does not correspond to either of the two previous models (in particular trading operations).

Asset characteristics

The characteristics of the financial assets are also decisive in identification of their accounting classification. Depending on the complexity of their structure and the cash flows they generate, financial assets are considered to be either SPPI (*Solely Payments of Principal and Interest*), for simpler and less structured assets, or non-SPPI for structured and/or complex assets.

On the basis of these two elements, different accounting classifications are offered by the IFRS 9 accounting standard:

- Financial assets at amortised cost: this classification includes "hold to collect" assets considered to be SPPI. Such assets are valued at amortised cost;
- Financial assets at fair value through equity: this classification includes "hold to collect and sell" assets considered to be SPPI. Such assets are valued at fair value and value adjustments are booked through equity (*Other Comprehensive Income* – OCI);

- Financial assets at fair value through profit and loss: this classification includes assets for which the management intention does not correspond to “hold to collect” or “hold to collect and sell”, as well as assets considered to be non-SPPI. Such assets are valued at fair value and value adjustments are booked through profit and loss.

Reclassifications made by the Dexia Group

In line with its status as an entity managed in run-off, Dexia has for the most part opted for a “hold to collect” management model. As a result, assets booked as “available for sale” (AFS) under IAS 39, have been classified in the “amortised cost” category under IFRS 9.

Furthermore, Dexia identified a portfolio of assets which may be the object of a disposal in coming years. These assets have been classified in the category “fair value through equity” under IFRS 9, as have the liquid assets held by Dexia Financial Products Services LLC.

Finally, in accordance with the standard, certain non-SPPI assets have been classified in the “fair value through profit and loss” category under IFRS 9.

Consequence of reclassifications for Dexia

Classification of the majority of Dexia’s assets in the “amortised cost” category under IFRS 9 involves a significant positive impact associated with the cancellation of latent gains and losses observed in equity under IAS 39.

This classification also results in a reduction and a change of the sensitivity of the Group’s equity to credit spread fluctuations, as the valuation of assets classified at “amortised cost” is no longer affected by credit spread fluctuations. In particular, the reduction of sensitivity is notable on Italian and Portuguese sovereigns. A residual sensitivity to credit spreads continues to exist, for assets classified in the “fair value through equity” and in the “fair value through profit and loss” category under IFRS 9. It now relates principally to American ABS as well as assets in the French and US public sectors.

Financial asset provisioning model

The IFRS 9 accounting standard defines a new credit risk provisioning model for assets booked at “amortised cost” and “fair value through equity”. Off-balance-sheet commitments are also subject to this new model.

Under IAS 39, credit risk provisioning took place when an operative event was observed. Under IFRS 9, provisioning is now made from the origination of the asset on the basis of expected credit losses.

The provisioning model defined by IFRS 9 relies on the distinction of three separate asset classes:

- The first (stage 1) corresponds to assets for which the credit risk has not deteriorated since origination. The level of provisioning of such assets corresponds to the expected loss over 12 months.
- The second (stage 2) corresponds to assets for which the credit risk has significantly deteriorated since origination, but without a default having been observed. The level of provisioning of such assets corresponds to the expected losses over the residual term.

- The third (stage 3) corresponds to assets on which there has been a default. The level of provisioning corresponds to the expected losses over the residual term. Assets acquired when they had already deteriorated are classified in this category. In this latter case, the modes of calculation of the provisioning level are specific.

Implementation of the new provisioning model by the Dexia Group

Implementation of the new credit risk provisioning model only has a limited impact at a Dexia Group level, reflected by an increase of provisions in the order of EUR 200 million.

Hedge accounting

Dexia has retained the opportunity to keep the provisions offered by IAS 39 regarding hedge accounting.

Impacts of the first-time application of the IFRS 9 accounting standard by the Dexia Group

Consolidated balance sheet

The first-time application of the IFRS 9 accounting standard is reflected by an increase of the balance sheet total by EUR +2.7 billion as at 1 January 2018, principally due to the cancellation of the frozen AFS reserve.

Furthermore, in accordance with Recommendation No 2017-02 dated 2 June 2017 of the French Autorité des Normes Comptables (ANC), certain changes have been made to the presentation of the financial statements, principally the creation and deletion of headings associated with the implementation of IFRS 9 as well as the presentation of cash collateral under the headings “Interbank/Customer loans and receivables” and “Interbank/Customer borrowings and deposits” under IFRS 9 (cf. table in Appendix 3 to the press release).

Accounting and regulatory equity – solvency ratios

The application of IFRS 9 generates a total positive net impact in the order of EUR 2.7 billion on accounting equity Group share as at 1 January 2018, associated with the reclassifications made and the implementation of the new provisioning model, partially offset by the adjustment to prudential treatment (EUR -0.6 billion).

As a consequence, Common Equity Tier 1 Capital and Total Capital rise by EUR 2.1 billion and EUR 2.0 billion respectively.

Risk-weighted assets increase by EUR 1.4 billion, following the increase of EAD outstanding due to the cancellation of the frozen AFS reserve.

As a consequence, Dexia's Common Equity Tier 1 Capital and Total Capital amount to 24.9% and 25.5% respectively as at 1 January 2018 against 19.5% and 20.4% as at 31 December 2017, or an increase of 5.4% and 5.1%.

Dexia decided to opt for transitional provisions[10] enabling it to spread over five years the impact on prudential capital resulting from the implementation of the new IFRS 9 impairment model. This will enable the Group to smooth the effects on the level of impairment of the migration of an asset from one category to another and attenuate any volatility generated by the new impairment model on prudential solvency ratios. In particular, Dexia is sensitive to any change of stage of Italian government debt.

Accounting equity as of 1 January 2018 (in EUR million)	
Accounting equity, Group share – IAS 39	**5,402**
Impact of the new credit risk provisioning model	-180
Impact of the change of accounting classes	419
Cancellation of the premium/discount associated with the reclassification of securities made historically in application of the amended IAS 39	2,485
Other	-5
Accounting equity, Group share – IFRS 9	**8,121**

Regulatory capital as at 1 January 2018 (in EUR million)	**IAS 39**	**IFRS 9**
Accounting equity, Group share	**5,402**	**8,121**
Prudential treatment	1,093	515
Common Equity Tier 1 Capital	**6,496**	**8,635**
Total Capital	**6,811**	**8,846**

Solvency ratios as at 1 January 2018 (in EUR million unless otherwise stated)	**IAS 39**	**IFRS 9**
Credit risk-weighted assets	31,371	32,750
Market risk-weighted assets	980	980
Operational risk-weighted assets	1,000	1,000
Risk-weighted assets	**33,351**	**34,730**
Common Equity Tier 1 Capital	6,496	8,635
Common Equity Tier 1 Ratio	**19.5%**	**24.9%**
Total Capital	6,811	8,846
Total Capital Ratio	**20.4%**	**25.5%**

[10]. In December 2017, the European Parliament amended the CRR and proposed that credit institutions use transitional provisions (phase in), which will enable them to spread over five years the impact on equity resulting from the implementation of the new IFRS 9 impairment model on solvency ratios. These provisions apply to the amount of additional provisions for credit risk as at 1 January 2018 ("static" phase in). They also apply to any additional amount of provisions associated with financial assets classified in phase 1 and phase 2 in accordance with the IFRS 9 approach, constituted during the five-year transition period ("dynamic" phase in).

Appendix 3 – Simplified balance sheet[11] (non-audited figures)

Balance sheet key figures			
(in EUR million)	30/06/2017 IAS 39	31/12/2017 IAS 39	30/06/2018 IFRS 9
Total assets	**199,394**	**180,938**	**168,340**
of which			
Cash and central banks	10,362	10,721	9,881
Financial assets at fair value through profit or loss	15,316	13,188	15,468
Hedging derivatives	5,396	4,985	4,627
Financial assets available for sale	13,435	10,830	
Financial assets at fair value through other comprehensive income			7,893
Financial assets at amortised cost - Debt securities			48,868
Interbank loans and advances	7,102	6,144	
Financial assets at amortised cost - Interbank loans and advances (1)			32,020
Customer loans and advances	109,946	99,264	
Financial assets at amortised cost - Customer loans and advances (1)			47,910
Accruals and other assets	34,339	30,550	507
Total liabilities	**194,272**	**175,536**	**160,547**
of which			
Central banks	90	0	0
Financial liabilities at fair value through profit or loss	15,932	14,193	13,385
Hedging derivatives	29,674	27,858	25,219
Interbank borrowings and deposits	38,286	31,016	31,253
Debt securities	94,795	89,654	86,258
Total equity	**5,122**	**5,402**	**7,793**
of which			
Equity, Group share	4,673	4,992	7,437

(1) As at 31 December 2017, the cash collateral was booked under "Accruals and other assets" (EUR 29,989 million). As from 30 June 2018, it is split between "Financial assets at amortised cost - Interbank loans and advances" (EUR 27,664 million) and "Financial assets at amortised cost - Customer loans and advances" (EUR 375 million).

Appendix 4 – Capital adequacy (non-audited figures)

(in EUR million)	30/06/2017	31/12/2017	30/06/2018
Common Equity Tier 1	6,252	6,496	8,192
Total capital	6,591	6,811	8,402
Risk-weighted assets	36,694	33,351	32,749
Common equity Tier 1 ratio	17.0%	19.5%	25.0%
Total capital ratio	18.0%	20.4%	25.7%

[11] *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 5 – Exposure to credit risk (non-audited figures)

Dexia Group exposure by geographic region			
(in EUR million)	**30/06/2017**	**31/12/2017**	**30/06/2018**
France	26,437	28,201	25,159
Italy	24,237	23,002	22,779
United Kingdom	23,597	22,178	21,310
Germany	19,000	17,835	16,844
United States	24,534	17,483	16,754
Spain	12,543	10,136	8,281
Japan	7,060	6,152	5,893
Portugal	3,873	3,924	4,519
Belgium	1,775	1,648	1,990
Canada	2,427	2,071	1,901
Austria	1,065	1,058	1,041
Central and Eastern Europe	1,133	956	962
Southeast Asia	488	451	444
South and Central America	472	430	372
Switzerland	379	357	360
Scandinavian countries	1,256	528	252
Netherlands	176	130	112
Greece	81	88	85
Luxembourg	60	38	85
Ireland	10	10	7
Turkey	295	169	0
Other [(1)]	6,027	5,039	2,650
Total	**156,926**	**141,881**	**131,800**

[(1)] *Including supranationals, Australia and Dexia Israel (deconsolidated in 2018).*

Dexia Group exposure by category of counterparty			
(in EUR million)	**30/06/2017**	**31/12/2017**	**30/06/2018**
Local public sector	82,772	75,621	69,525
Central governments	29,972	29,701	28,363
Financial institutions	17,631	13,174	11,478
Project finance	12,347	11,652	11,000
Corporate	6,977	5,807	5,786
ABS/MBS	5,395	4,424	4,081
Monolines	1,830	1,500	1,568
Individuals, SME and self-employed	2	1	1
Total	**156,926**	**141,881**	**131,800**

Group exposure by rating (internal rating system)			
	30/06/2017	31/12/2017	30/06/2018
AAA	21.3%	21.0%	19.8%
AA	14.3%	14.9%	17.2%
A	25.9%	25.2%	24.4%
BBB	29.3%	29.3%	29.1%
Non Investment Grade	8.1%	8.4%	8.6%
D	0.7%	0.8%	0.6%
Not Rated	0.3%	0.4%	0.3%
Total	**100%**	**100%**	**100%**

Appendix 6 – Sector exposure of the Group as at 30 June 2018 (EAD on end counterparties – non-audited figures)

Group sector exposure to certain countries							
(in EUR million)	***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	25,159	11,285	2,948	1,767	0	9,159	0
Italy	22,779	9,374	367	330	8	12,700	0
United Kingdom	21,310	10,335	8,055	1,134	1,360	61	366
Germany	16,844	14,317	130	2,046	0	350	0
United States	16,754	9,072	874	2,108	2,214	1,285	1,202
Spain	8,281	4,623	1,549	1,291	353	465	0
Japan	5,893	4,764	0	1,108	0	20	0
Portugal	4,519	1,603	77	7	73	2,759	0
Canada	1,901	922	822	157	0	0	0
Poland	552	1	0	0	0	550	0
Greece	85	4	81	0	0	0	0
Ireland	7	0	7	0	0	0	0
Hungary	2	1.5	0	0.5	0	0	0

** Exposure to the Italian banking sector of EUR 330 million includes the exposure to Italian banks of EUR 263 million. The balance of EUR 66 million relates to the exposure to clearing houses.*

Appendix 7 – Asset quality (non-audited figures)

Asset quality					
(in EUR million)			**30/06/2017 IAS39**	**31/12/2017 IAS39**	**30/06/2018 IFRS9**
Impaired assets[1]			1,218	877	758
Specific impairments[2]			327	257	216
	Of which	*Stage 3*			209
		POCI			7
Coverage ratio[3]			26.9%	29.3%	28.4%
Collective provisions			362	331	488
	Of which	*Stage 1*			
		Stage 2			*482*

[1] *Outstanding: computed according the applicable perimeter defined under IFRS 9 (FV through OCI + Amortised Cost + Off Balance).*

[2] *Impairments: according the portfolio taken into account for the calculation of the outstanding, inclusive the impairments related to POCI.*

[3] *Specific impairments-to-Impaired assets ratio*

Appendix 8 – Ratings

Ratings as at 31 August 2018			
	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	-

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