2017

ANNUAL REPORT

DEXIA CRÉDIT LOCAL

DEXIA
CRÉDIT
LOCAL
DCL

Registration document 2017

Management report

Message from the Chairmen

Dear Shareholders,

The year 2017 saw a continuing improvement of the macroeconomic environment, particularly against the background of rising interest rates in the euro zone and the United States. The euro strengthened against the principal currencies and credit spreads tightened, particularly on peripheral European sovereigns.

We took advantage of these favourable conditions to accelerate the reduction of our asset portfolios and to reduce their risk and complexity. Indeed, we made targeted sales of risk assets, including certain positions linked to the Commonwealth of Puerto Rico, as well as heavily capital-weighted assets such as asset-backed securities and subordinated banking exposures. Furthermore, the improvement of market conditions enabled us to reduce our concentration on certain sectors and counterparties by disposing of sovereign exposures, covered bonds and municipal loans, principally in France and the United States. These operations resulted in particular in a reduction of the size of our balance sheet by 15% over the year, to EUR 180 billion.

At the same time, during the year we significantly improved our liquidity position. Favourable market conditions, marked by abundant liquidity, enabled us to carry out important work to optimise our funding sources and to reduce our funding cost. Funding from central banks gradually fell to zero and was replaced by less costly market funding. This change from central bank funding constitutes an extremely important phase in the Dexia Group's resolution since the European Central Bank announced that wind-down entities would no longer have access to the Eurosystem as from January 2022.

Faced with many external uncertainties and increased regulatory requirements, we continued to manage our solvency position proactively. By virtue of the considerable reduction of risk weighted assets, principally resulting from asset disposals, amplified by the favourable market context, we were able to increase our Total Capital ratio to 17.0% as at 31 December 2017.

Implementation of the IFRS 9 accounting standard as at 1 January 2018 was accomplished in line with the planned timetable. The application of this new accounting standard will have a positive total net impact in the order of EUR 2.8 billion on Dexia Crédit Local's consolidated equity as at 1 January 2018, reflected by an improvement of the solvency ratios estimated at 500 basis points.

On another front, we continued the initiatives taken to secure our operating model which commenced in 2015 and 2016. The signature with Cognizant of an agreement to outsource our IT and back office activities in France created the foundation for an operating model which will be more resilient over the long term and enable us to respond more effectively to the issues surrounding our orderly resolution, which are management of the reduction of our asset portfolio, operational cost control and risk management.

Globally, even if the net result of the year is negative, Dexia Crédit Local's liquidity and solvency position is far better today than anticipated in the 2012 orderly resolution plan.

Like 2017, 2018 will undoubtedly be another very eventful year for Dexia Crédit Local. We will be continuing various projects to simplify our international network in order to reduce our geographic footprint and to optimise our efficiency at a Group level. After the signature of an agreement to end the litigation involving Dexia in Israel and the deployment of a new strategy, in March 2018 we sold our entire holding in Dexia Israel. Furthermore, we are continuing our project to centralise Dexia's activities in Spain and Portugal, in order to close our branches in Portugal in mid-2018 and in Spain in 2019. Finally, we will continue, in 2018, to assess the different strategic options for the restructuring of our international network, particularly with regard to Dexia Kommunalbank Deutschland.

We will of course remain attentive to the evolution of our cost base and we will seek to improve our efficiency by simplifying our working methods, by rationalising processes and by reducing duplication.

The conduct of the Dexia Group's resolution, against an uncertain background and a constantly changing regulatory environment, is only possible with the daily commitment of our staff members. Our teams continue their remarkable work to manage this complex resolution. We thank them most sincerely for their unceasing involvement and their dynamism in the performance of the task facing Dexia and Dexia Crédit Local.

That task relies on the support of the States, which guarantee part of our funding, and on our shareholders, but also on a close collaboration with the various stakeholders in the Dexia Group's resolution. We would also like to thank them.

Wouter Devriendt
Chief Executive Officer
Chairman of the Management Board

Robert de Metz
Chairman of the Board of Directors

Dexia Crédit Local Group profile

A Group in orderly resolution

Headquartered in France, where it maintains a banking license, Dexia Crédit Local[1] is the Group's main operating entity, carrying the majority of its assets. Dexia Crédit Local also still has an international presence through its branches in Ireland, the United States, Spain, Portugal and subsidiaries in Germany, Italy and Israel. These entities also hold local banking licences.

The Dexia Crédit Local Group has 929 members of staff as at 31 December 2017.

The Group's parent company, Dexia, is a public limited company (société anonyme) and financial company governed by Belgian law whose shares are listed on Euronext Brussels. The Belgian and French States own 99.6% of the Group[2]. As a significant bank[3], Dexia has been under the direct prudential supervision of the European Central Bank within the framework of the Single Supervisory Mechanism (SSM) since 4 November 2014, as is Dexia Crédit Local Group and the French outer scope.

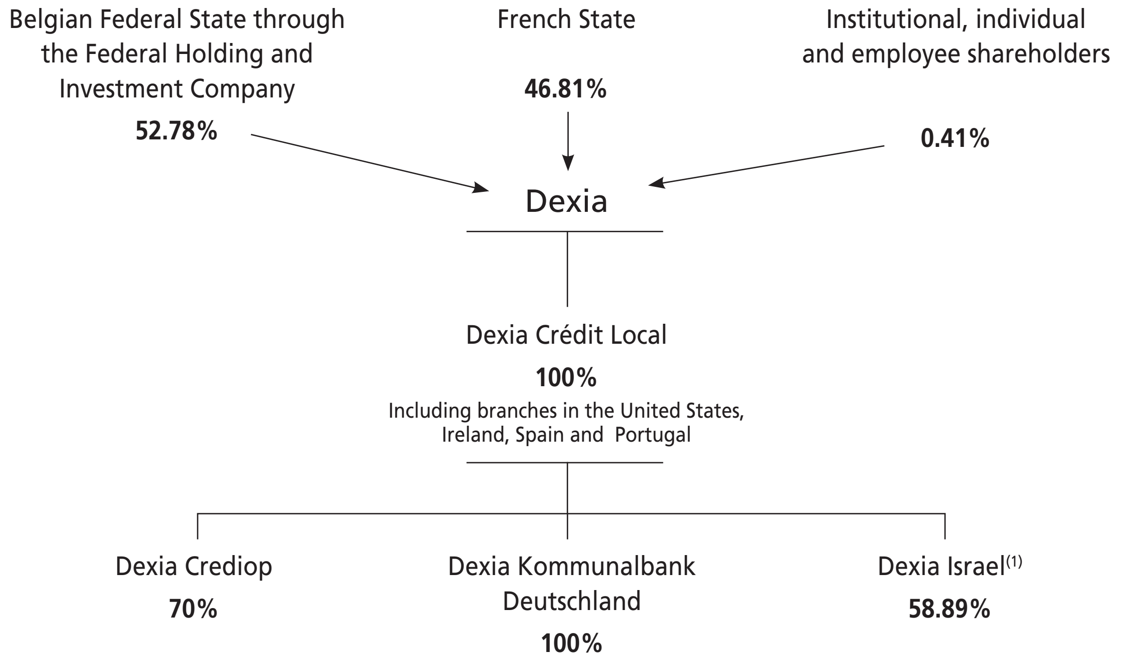
Dexia and Dexia Crédit Local managed under an orderly resolution plan since the end of 2011. Approved by the European Commission in December 2012, Dexia's orderly resolution plan aims to avoid the Group's bankruptcy and liquidation which, given its residual size, could be destabilising to the entire European banking sector. In order to enable the orderly resolution, the Belgian, French and Luxembourg States granted a liquidity guarantee for a maximum principal amount of EUR 85 billion to Dexia Crédit Local, which is consequently the issuer of Dexia Group under the State guarantee format.

Dexia Crédit Local no longer has any commercial activities and is now solely focused on managing its assets in run-off, mainly public sector and sovereign assets, while protecting the interests of the Group's State shareholders and guarantors. To meet this objective, Dexia and Dexia Crédit Local have established three strategic goals:

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

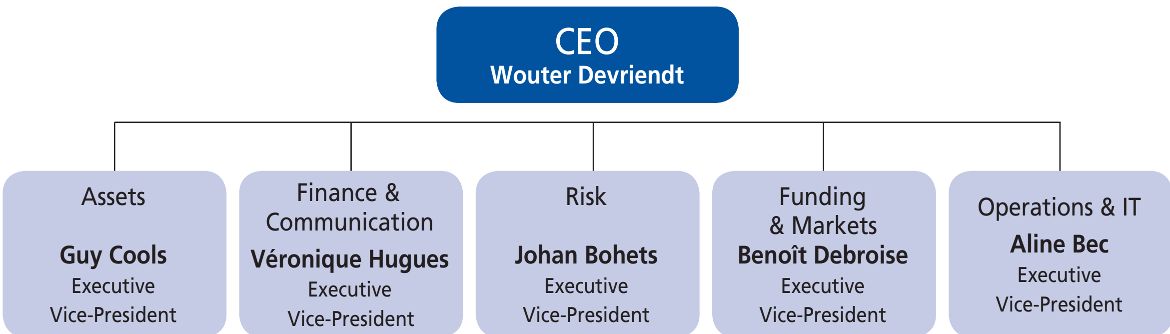
(1) Throughout this reference document Dexia Crédit Local refers to Dexia Crédit Local S.A. and Dexia refers to Dexia SA/NV.
(2) In 2012, the Belgian and French States increased Dexia's capital with EUR 5.5 billion.
(3) Regulation (EU) No. 468/2014 of the European Central Bank of 16 April 2014.

Simplified structure



(1) Entity disposed of in March 2018. Cf. press release issued by Dexia on 18 March 2018, available at www.dexia.com.

Management Board



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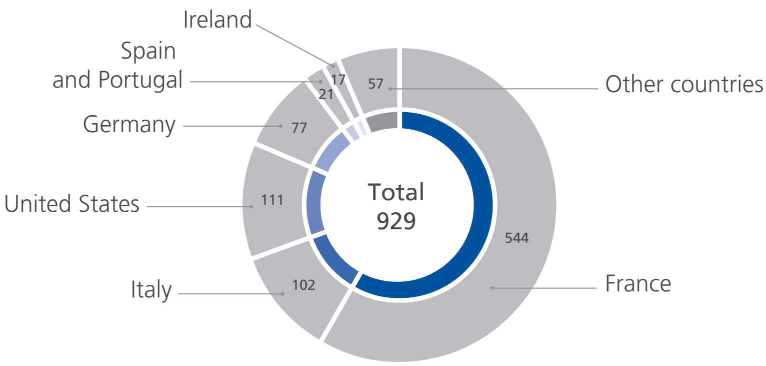
MEMBERS OF STAFF AS AT 31 DECEMBER 2017



RESULTS (in EUR million)	**2016**	**2017**
Net banking income	711	135
Costs	(410)	(401)
Gross operating income	301	(266)
Cost of risk	138	33
Net income Group share	442	(241)

BALANCE SHEET (in EUR billion)	**31/12/2016**	**31/12/2017**
Balance sheet total	212.0	180.4

SOLVENCY (in EUR million except where indicated)	**31/12/2016**	**31/12/2017**
Common Equity Tier 1	5,676	5,354
Total Capital	5,802	5,629
Risk-weighted assets	43,206	33,177
Common Equity Tier 1 ratio	13.1%	16.1%
Total Capital Ratio	13.4%	17.0%

RATINGS AS AT 15 MARCH 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	-
GBB Rating			
Dexia Crédit Local (guaranted debt)			
Fitch	AA-	-	F1+
Moody's	Aa3	Stable	P-1
Standard & Poor's	AA	-	A-1+
Dexia Kommunalbank Deutschland (*Pfandbriefe*)			
Standard & Poor's	A	Stable	-

Highlights

In 2017, Dexia Crédit Local 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 published by Dexia Crédit Local in 2017. This environment was favourable to an acceleration of the reduction of risks and the size of the Dexia Crédit Local balance sheet and, in fine, a reduction of the risk borne by the States shareholders and guarantors.
At the same time, Dexia Crédit Local 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.

Progress of the orderly resolution plan

Dynamic management of the balance sheet and credit risk

In 2017, Dexia Crédit Local 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 Crédit Local made disposals, revolving around three main axes. On the one hand, Dexia Crédit Local 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 343 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.
Dexia Crédit Local 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 Dexia Crédit Local's capital and liquidity.
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 Crédit Local's credit portfolio remains of good quality overall, at 90% of exposures rated investment grade as at 31 December 2017.
Dexia Crédit Local pays particular attention to the monitoring and management of certain exposures considered to be sensitive. It 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 Crédit Local'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 Crédit Local therefore took total provisions to EUR 35.7 million (USD 42.8 million) as at 31 December 2017.

Sale of Dexia Israel

In 2017, the agreement signed in 2016 by Dexia Crédit Local, the Union of Local Authorities in Israel (ULAI) and the minority shareholders of Dexia Israel was implemented, ending the litigation involving Dexia Crédit Local in Israel. All the different share classes in existence were unified in one single share class, all listed on the Tel Aviv Stock Exchange. As a consequence of that operation, Dexia Crédit Local now holds 58.89% of the capital of Dexia Israel. At the same time, the composition of the Board of Directors of Dexia Israel was altered to reflect the new shareholder structure.
Furthermore, Dexia Israel was given a new strategy, aimed at improving, and somewhat diversifying the bank's business model as well as its return on equity. Within that framework, Dexia Israel sold a portfolio of municipal loans for an amount of approximately NIS 1.5 billion (EUR 382 million), representing about 25% of the bank's total loan book, and announced the distribution of a dividend of NIS 500 million (EUR 120 million). An amount of NIS 300 million was distributed on 4 January 2018.
On 17 March 2018, Dexia Dexia Crédit Local agreed on an off-market transaction with a series of qualified investors, involving the sale of all its shares in Dexia Israel Bank (Dexia Israel)[1]. The sale was made at a price of NIS 674 per share and the total consideration amounts to approximately EUR 82 million.
The sale of Dexia Israel completes the mandatory divestment process of the Group's commercial franchises, as part of the commitments taken by the French, Belgian and Luxembourg States in the framework of the resolution plan approved by the European Commission in December 2012. As such, it represents an important milestone on the path of the execution of Dexia's resolution.

(1) Cf. Press Release issued by Dexia on 18 March 2018, available at www.dexia.com.

The impact of the sale, considered to be non-material, will be recorded in Dexia Crédit Local's 1Q 2018 consolidated financial statements.

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

In order to complete its resolution correctly, Dexia Crédit Local has to look after its operational continuity. In order to adapt its operating model to the requirements of a structure in resolution, the income of which reduces, notably 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 Crédit Local signed an agreement with Cognizant for 10 years, making Cognizant Dexia Crédit Local's strategic partner for IT and the management of operational processes on back office markets and credit activities in France[(1)].
Under the terms of this agreement, Dexia Crédit Local 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 Crédit Local 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.

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[(2)]. 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 Crédit Local'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 Dexia Crédit Local had already significantly reduced its recourse to Eurosystem funding, this funding source being reduced to nil as at 31 December 2017. Dexia and Dexia Crédit Local have included this element in the definition of the framework which will enable them to continue their resolution after 2021, the date corresponding to the end of the current orderly resolution plan[(3)].
Until that measure takes effect, as from the end of 2021, Dexia Crédit Local will have the possibility of asking for a maximum of funding of EUR 5.2 billion from the Eurosystem. The Dexia Group 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.

Increase of the prudential requirements applicable in 2018

The European Central Bank (ECB) informed Dexia and Dexia Crédit Local of the qualitative and quantitative regulatory capital requirements which will be applicable to Dexia and its main entities as from 1 January 2018, in accordance with Regulation (EU) No 1024/2013 of the Council dated 15 October 2013[(4)].
In this regard the level of the Total SREP capital requirement applicable to Dexia and Dexia Crédit Local in 2018 has been set at 10.25% on a consolidated basis, compared to 9.875% in 2017.
More detailed information is provided in the chapter entitled "Information on capital and liquidity" in this registration document".
The European Central Bank also informed Dexia that the tailored, pragmatic and proportionate prudential approach, taking account of Dexia and Dexia Crédit Local'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 applied by the ECB, 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 Crédit Local 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 Crédit Local 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 185 million for Dexia Crédit Local[(5)].
- Finally, the ECB states that it expects Dexia Crédit Local to observe the leverage ratio. As at 31 December 2017, the leverage ratio of Dexia Credit Local amounted to 3.8%, above the regulatory minimum of 3%.

(1) Cf. Press Release issued jointly by Dexia and Cognizant on 5 October 2017, available at www.dexia.com.
(2) Cf. Press Release issued by Dexia on 21 July 2017, available at www.dexia.com.
(3) Cf. Decision by the European Commission dated 28 December 2012 approving the Dexia orderly resolution plan.
(4) Cf. Press Release issued by Dexia on 5 February 2018, available at www.dexia.com.
(5) Based on a calculation of own funds taking account of the estimated impact of the IFRS9 first-time adoption.

Financial results

Notes regarding the Dexia Crédit Local Group's annual consolidated financial statements 2017

Going concern

The consolidated financial statements of Dexia Crédit Local 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 Crédit Local 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, Dexia Crédit Local'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 Dexia Crédit Local, 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[1]. Furthermore, Dexia Crédit Local 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 and Dexia Crédit Local since their entry in resolution do not allow them to ensure constant compliance with certain regulatory ratios over the resolution period.

Dexia and Dexia Crédit Local are also sensitive to the evolution of their 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 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 regulatory capital.

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

Analytical segmentation

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

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

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 Crédit Local financial statements as at 31 December 2017. The assets and liabilities of Dexia Israel have been reclassified in a separate line in Dexia Israel's consolidated balance sheet. 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 Dexia Crédit Local's consolidated income statement.

(1) 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.

Replacement of the IAS 39 standard "Financial Instruments: Accounting and Valuation" by the IFRS 9 standard "Financial Instruments" as at 1 January 2018

The project associated with implementation of the IFRS 9 standard by the Group progressed in line with the planned schedule. The application of IFRS 9 will have a positive total net impact on Dexia Crédit Local's equity as at 1 January 2018 in the order of EUR 2.7 billion. That impact is explained principally by two elements:

• The reclassification of loans and securities:

– Reclassification of assets available for sale to the category "amortised cost", involving a significant positive impact linked to the cancellation of latent gains and losses observed in equity under IAS 39. The amount of those latent reserves in Group share was EUR -3.3 billion as at 31 December 2017.

– Reclassification of debt securities and structured loans, principally from "amortised cost" to the category "fair value through profit and loss": the impact of taking the fair valuation of these assets is negative.

– Reclassification of debt securities and loans held for sale from "amortised cost" (IAS 39) to the category "fair value through equity" (IFRS 9): the expected impact is negative, as credit spreads have generally widened from inception.

• The implementation of a new credit risk provisioning model: Dexia Crédit Local only expects a limited impact from this new mode of provisioning, reflected by an increase of provisions in the order of EUR 0.2 billion.

Some derivative hedging assets, now recorded at fair value through profit and loss, can no longer be considered as hedging derivatives under IFRS, even if they were under IAS39, and will therefore be classified under IFRS 9 as transaction derivatives. They will still be considered from a regulatory viewpoint as derivatives of the banking book (and not the trading book). The volatility associated with the interest rates of these assets will still be offset by hedging derivatives, but the volatility associated with credit risks will remain and therefore impact accounting and regulatory capital. The definitive impact on Dexia Crédit Local's regulatory capital will also depend on the prudential filters and adjustments which will be applied to Dexia Crédit Local's equity capital under IFRS 9.

In December 2017, the European Parliament amended the CRR and offered credit institutions the possibility to make use of phase-in provisions, which enable the impact on equity resulting from implementation of the new IFRS 9 provisioning model on solvency ratios to be spread over five years. These are applied to the amount of additional provisions for credit risk as at 1 January 2018 ("static" phase-in). They are also applied to additional amounts of provisions associated with financial assets in bucket 1 and in bucket 2 according to the IFRS 9 approach, constituted during the five-year transition period ("dynamic" phase-in). In 2018 Dexia informed the supervisory authorities that it was asking for this phase-in. Not taking the phase-in into account, the total impact of the implementation of the IFRS 9 standard on Dexia Crédit Local's Total Capital Ratio as at 1 January 2018 is estimated at + 500 basis points.

Dexia Crédit Local's consolidated financial statements

Analysis of the consolidated income statement

During 2017, the Dexia Crédit Local Group booked net income Group share of EUR -241 million.

Over that period, net banking income was EUR 135 million, it consisted of:

• The net interest margin, which includes income from asset portfolios and the funding cost, and amounted to EUR +237 million. Over the year, income followed a downward trend, as a result of the reduction of asset portfolios. At the same time, the funding cost followed a similar trend, in view of the reduction of volumes to be funded, an optimisation of the funding mix and favourable market conditions. The fall of the net interest margin is principally explained by the reduction of transformation income;

• net gains or losses on financial instruments at fair value by result, which amounted to EUR -84 million. This amount results mainly from taking account of an adjustment on certain accounting hedge relations, as well the negative evolution of the valuation of derivatives on the basis of an OIS curve, under market conditions unfavourable to the Group. Nevertheless, this impact was partially offset by the favourable evolution of the CVA and the FVA. In addition, the impact of the breakdown of hedge relations on Group positions on enterprises associated with the Commonwealth of Puerto Rico, from the viewpoint of their disposal, was EUR -54 million;

• Net gains or losses on financial assets available for sale in an amount of EUR -35 million, resulting from losses on asset disposals.

Costs amounted tp EUR -421 million, including EUR -86 million for taxes and regulatory contributions, the majority booked during the first quarter, in application of the IFRIC 21 accounting standard. Excluding such taxes and contributions, operating costs followed a downward trend, illustrating the efforts to control costs undertaken by Dexia Crédit Local.

CONSOLIDATED INCOME STATEMENT – ANC FORMAT

EUR million	2016	2017
Net banking income	**711**	**135**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	(410)	(401)
Gross operating income	**301**	**(266)**
Cost of risk	138	33
Net gains and losses on other assets	56	2
Pre-tax income	**495**	**(231)**
Income tax	(54)	(9)
Result from discontinued operations	0	0
Net income	**441**	**(240)**
Minority interests	(1)	1
Net income Group share	**442**	**(241)**

The cost of risk had a positive impact of EUR 33 million over the year, principally associated with reversals of provisions, in particular on assets disposed of. Considering the increase of provisioning on residual exposures, the net annual impact on exposures associated with the Commonwealth of Puerto Rico is EUR -58 million.
Pre-tax income was EUR -231 million.
Over the year, the tax charge was EUR -9 million.
The income attributable to minority interests was EUR 1 million leading to net income Group share of EUR -241 million.

Evolution of the consolidated balance sheet

As at 31 December 2017, Dexia Crédit Local's consolidated balance sheet total was EUR 180.4 billion, down EUR -31.6 billion on 31 December 2016 as a result of a dynamic policy of asset portfolio reduction combined with the evolution of the macroeconomic environment.
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 Dexia Crédit Local to its derivatives counterparties, against a background of rising long-term interest rates. This was partially offset by a EUR +7.3 billion increase of Dexia Crédit Local'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 and by, 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.
The balance sheet of Dexia Israel, classified under "Activities held for sale" represented EUR 2.1 billion as at 31 December 2017.

Information country by country

All the entities of the Dexia Crédit Local Group are managed in run-off, with the exception of Dexia Israel[1], in order to protect the value of its commercial franchise, from the viewpoint of disposal. Furthermore, Dexia Crédit Local observes the principles of the Foreign Account Tax Compliance Act (FATCA) as well as the principles adopted by the OECD and the G20 on the implementation of international standards aimed at improving fiscal transparency and the exchange of information for tax purposes.

1. ESTABLISHMENT AND THE NATURE OF THEIR ACTIVITY

Germany	
Dexia Kommunalbank Deutschland AG	Bank, credit institution
Spain	
DCL Sucursal en España	Bank, credit institution
United States	
DCL New York Branch	Bank, credit institution
Dexia Holdings, Inc	Holding company
Dexia FP Holdings Inc	Other financial activities
Dexia Financial Products Services LLC	Other financial activities
FSA Asset Management LLC	Other financial activities
FSA Capital Markets Services LLC	Other financial activities
FSA Capital Management Services LLC	Other financial activities
France	
Dexia Crédit Local SA	Bank, credit institution
Dexia CLF Régions Bail	Leasing company
Dexia Flobail	Loan-lease financing of local investments
Cayman Islands	
FSA Global Funding LTD	Other financial activities
Premier International Funding Co	Other financial activities
Ireland	
Dexia Crédit Local, Dublin Branch	Bank, credit institution
WISE 2006-1 PLC	Other financial activities
Israel	
Dexia Israel Bank Ltd.	Bank, credit institution
Italy	
Dexia Crediop	Bank, credit institution
Portugal	
DCL sucursal em Portugal	Bank, credit institution
United Kingdom	
FSA Portfolio Asset Limited (UK)	Other financial activities

(1) Entity disposed of in March 2018. Cf. press release of 18 March 2018, available on www.dexia.com

2. DATA BY COUNTRY

Country of establishment	Net banking income (in EUR million)	Pre-tax income (in EUR million)	Current tax (in EUR million)	Workforce
Germany	60	31	0	74
Spain	33	59	(5)	19
United States	(36)	(131)	(2)	112
France	(14)	(250)	(3)	553
Cayman Islands	(9)	(9)	0	
Ireland	79	100	0	20
Israel	20	8	(2)	45
Italy	36	(5)	(1)	101
Japan	(24)	(24)	0	
Portugal	(1)	(2)	0	3
United Kingdom	(9)	(9)	0	

Dexia Crédit Local's statutory financial statements

Evolution of the income statement

The **net income** of Dexia Crédit Local for the 2017 financial year was EUR +1,004 million, against EUR -217 million in 2016. This result is marked by the strong appreciation of the investment portfolio considering the favourable evolution of credit spreads.

Net banking income was EUR +1,427 million in 2017, against EUR +661 million at the end of 2016.

It consists in particular of:

• The net interest margin, which includes income from asset portfolios and the funding cost, at EUR +403 million;

• Income from variable-income securities at EUR +54 million, of which EUR 48.5 million in dividends received from the subsidiary Dexia Israel Bank Ltd ;

• Gains on investment portfolios at EUR +933 million considering the favourable evolution of credit spreads;

• Gains associated with the disposal of held-to-maturity securities at EUR + 62 million.

Operating costs were EUR -321 million over the 2017 financial year, up 8.8% on 2016. Costs include EUR -61 million of taxes and regulatory contributions.

The **Cost of risk** had a positive impact of EUR +67 million over the year. It mainly consists of:

• A reversal of provisions for risks of EUR +27 million in relation to loan-desensitisation activity;

• Significant reversals of provisions on assets disposed of;

• An increase of provisioning on residual exposures associated with Puerto Rico.

The item **gains/losses on fixed assets** amounted to EUR -162 million. It consisted mainly of the allocation for depreciation of the holding in the subsidiary Dexia Kommunalbank Deutschland at EUR -233 million. As a consequence, the value of that holding appears at zero in the 2017 annual financial statements. The merger surpluses following universal transmissions of the assets of the company CBXIA2 at EUR +56 million and the company CLF Bank at EUR +3 million complete this item.

INCOME STATEMENT

(in EUR million)	2016	2017
Net banking income	**661**	**1,427**
Operating expenses	(295)	(321)
Gross operating income	**366**	**1,106**
Cost of risk	(10)	67
Operating income	**356**	**1,173**
Capital gains (losses) on non-current assets	(550)	(162)
Pre-tax income	**(194)**	**1,011**
Corporate income tax (expense)	(23)	(7)
Net income	**(217)**	**1,004**
Basic earnings (loss) per share (in EUR)	*(0.78)*	*3.59*
Diluted earnings per share (in EUR)	*(0.78)*	*3.59*

Balance sheet evolution

The balance sheet total as at 31 December 2017 was EUR 118.9 billion, against EUR 135.1 billion in 2016, down 12.1%.

Applying Article R 511-16-1 of the Monetary and Financial Code, the Dexia Crédit Local return on assets, calculated by dividing the net result by the balance sheet total, was +0.85% in 2017.

A – Assets

Customer loans

As at 31 December 2017, total customer loans were down by 14.8% at EUR 30 billion (against EUR 35.1 billion at the end of December 2016) in view of disposals, early loan redemptions and natural amortisation.

Held-for-trading, available-for-sale and held-to-maturity securities

The total value of securities held was EUR 29 at the end of 2017, against EUR 40 billion at the end of 2016. The evolution of the different portfolios is presented in the notes to the financial statements. They consist essentially of French and foreign bonds, negotiable debt securities and government securities. The fall of the securities portfolio is explained by disposals of sovereign exposures, covered bonds and asset-back securities (ABS).

Equity investments, shares in affiliated enterprises

Equity investments amounted to EUR 0.3 billion, against EUR 0.6 billion at the end of 2016.

This fall results from the impairment of the Dexia Crédit Local holding in Dexia Kommunalbank Deutschland in an amount of EUR -233 million,

There was no acquisition in 2017.

Other assets

The item "Other assets" was EUR 22.7 billion, against EUR 28 billion at the end of 2016.

The cash collateral remained stable between 2016 and 2017 and was EUR 22.4 billion as at 31 December 2017.

B- Liabilities

Banks and financial institutions

The Dexia Crédit Local debt with credit institutions was EUR 31 billion as at 31 December 2017, against EUR 40 billion at the end of 2016.

Debt securities

The debt securities in total liabilities are a characteristic element of the Dexia Crédit Local balance sheet. As at 31 December 2017, this amount was EUR 71 billion, against EUR 76 billion at the end of 2016 and represented the amount of bond debts issued by Dexia Crédit Local and for the most part benefiting from the guarantee of the French, Belgian and Luxembourg States.

Delays in paying suppliers and customers

Applying Articles L. 441-6-1 and D. 441-4 of the French Commercial Code, Dexia Crédit Local must each year publish a breakdown of the balance of its debts to suppliers by due date.

The supplier debts of Dexia Crédit Local represent an insignificant amount in the company's balance sheet total. Dexia Crédit Local's practice is to settle its invoices at 45 days unless a contractual agreement is signed with the supplier providing for a settlement deadline of 30 days or 60 days as the case may be.

Supplier debts were EUR 3 million as at 31 December 2017.

Debts associated with banking activity, for which new provisions cannot be adapted, are described in the notes 2.3 and 2.4 to the statutory financial statements.

Delays in payment relating to debts outside banking activity are indicated below.

Detail of supplier invoices received, due and not settled as at 31 December 2017 (in EUR)

Number of invoices	1 to 30 days	31 to 60 days	61 to 90 days	91 days and more	Total
19	73,489	0	194	200,390	274,074

Detail of customer invoices issued, due and not settled as at 31 December 2017 (in EUR)

Number of invoices	1 to 30 days	31 to 60 days	61 to 90 days	91 days and more	Total
14	116,421	1,369,285	0	97,471	1,583,177

Eckert Law information

Dexia Crédit Local declares as information provided in II of Article L. 312-19 and the fourth paragraph of I of Article L. 312-20 that it has the following accounts as at 31 December 2017:

• Outstanding deposits and assets on inactive accounts: EUR 8,908;

• Number of accounts the assets of which are deposited with the Caisse des dépôts et consignations: 0;

• Total amount of funds deposited with the Caisse des dépôts et consignations: 0.

Information on Tax Credit for Employment and Competitiveness (*Crédit Impôt Compétitivité et Emploi* – CICE)

The amount of CICE relating to the year 2013 of EUR 96,550 was reimbursed to Dexia Crédit Local in June 2017.

In accordance with the legislation, this amount is used to sustain efforts to invest in projects, particularly in IT.

FIVE –YEAR FINANCIAL SUMMARY

	2013	2014	2015	2016	2017
EQUITY					
Share capital (in EUR)	1,286,032,212(1)	223,657,776(2)	223,657,776	279,213,332(3)	279,213,332(3)
Number of shares	223,657,776	223,657,776	223,657,776	279,213,332	279,213,332
COMPREHENSIVE INCOME (IN EUR)					
Revenues	2,073,786,463	1,608,398,829	1,432,949,370	2,861,425,520	1,862,276,007
Earnings before income tax, depreciation, amortisation and net impairment charges	(1,726,311,574)	(105,198,739)	209,875,341	160,629,999	245,593,268
Corporate income tax	(118,600,706)	(3,079,383)	886,101	(22,784,693)	(6,755,199)
Earnings after income tax, depreciation, amortisation and net impairment charges	(25,026,743)	(747,087,790)	60,179,506	(216,780,648)	1,003,770,302
Dividends	Nil	Nil	Nil	Nil	Nil
DATA PER SHARE (IN EUR)					
Revenues	9.27	7.19	6.41	10.25	6.67
Earnings after income tax, and before depreciation, amortisation and net impairment charges	(8.25)	(0.47)	0.94	0.49	0.86
Corporate income tax	(0.53)	(0.01)	0.00	(0.08)	(0.02)
Earnings after income tax, depreciation, amortisation and net impairment charges	(0.11)	(3.34)	0.27	(0.78)	3.59
Dividends	0	0	0	0	0
EMPLOYEE DATA					
Employees as at 31 December	922	805	793	811	683
Managerial staff	729	644	640	638	549
Administrative staff	193	161	153	173	134
Gross payroll (in EUR)	100,668,306	81,251,269	79,595,293	80,733,095	76,366,807
Payroll taxes and employee benefits (social security, employee benefit programmes etc.) (in EUR)	30,914,577	24,803,347	25,302,829	24,401,805	23,533,784

(1) The capital increase resulted in a significant change to the Group's shareholder structure, the Belgian and French States holding 50.02% and 44.40% respectively of the capital of Dexia after the issue of the new shares.

This increase enabled Dexia to subscribe to the capital increase of its subsidiary Dexia Crédit Local which the board of directors decided on at its meeting on 19 December 2012, in accordance with the delegation of powers granted to it by the shareholders' meeting held on 12 December 2012, to increase the capital By an amount of approximately EUR 2 billion, including issue premium. The share capital of Dexia Crédit Local S.A. would be raised from EUR 500,513,102.75 to EUR 1,286,032.212.

(2) By resolution of the combined shareholders' meeting held on 16 December 2014, Dexia Crédit Local reduced its share capital by an amount of EUR 1,062,374,436 to clear the company's losses. This capital reduction was effected by reduction of the nominal value of shares. The share capital of Dexia Crédit Local was then EUR 223,657,776 represented by 223,657,776 shares each with a nominal value of 1,00.

(3) The extraordinary shareholders' meeting of Dexia Crédit Local held on 28 June 2016 decided to increase the share capital in cash by an amount of EUR 250 million, by the issue of new shares maintaining the shareholders' preferential subscription right. The share capital social of Dexia Crédit Local was therefore increased from EUR 223,657,776 to EUR 279,213,332 by the issue of 55,555,556 new shares with a nominal value of EUR 1.00. Issued at a unit price of EUR 4.50, or with a share premium of EUR 3.50 per share.

Risk Management

Introduction

In 2017, the Risks activity line continued Dexia Crédit Local's active risk management, in particular with the introduction of weekly production of indicators for the Risk Appetite Framework (RAF) mechanism. This mechanism was enhanced during the year and includes operational risk and activity continuity indicators associated with the transitional phase of the outsourcing of IT and back office services. Its task is to define the principles for assessing any difference in the risk profile compared to the strategic plan approved by the Group's executive bodies.

The year 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 principal currencies as well as a tightening of credit spreads in particular on peripheral sovereigns. This environment was favourable to an acceleration of the reduction of Dexia Crédit Local balance sheet. The Group thus made disposals which revolved around three principal axes. On the one hand, it targeted heavily capital-weighted assets, such as asset-back securities (ABS) and subordinated bank exposures. 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 in the United States. Finally, assets considered to be risky were also sold, particularly certain positions associated with the Commonwealth of Puerto Rico. The Group also continued with its policy aimed at encouraging early redemptions of certain loans.

The cost of risk had a positive impact, at EUR 33 million. This positive amount is explained by reversals of provisions, particularly on assets disposed of during the year, in spite of the provisioning of the residual exposure on Puerto Rico. Overall, the portfolio presents good credit quality, with 90% of Group exposures rated investment grade.

The project to outsource IT and back-office services was formalised by an agreement signed in October 2017 in partnership with Cognizant; it marks an important stage in securing the operating model. In addition, Cognizant's technological assistance will enable Dexia Crédit Local to create an appropriate investment framework to strengthen its IT infrastructure.

As in 2016, Dexia Crédit Local took part in the transparency exercise organised by the European Banking Authority (EBA), the elements and conclusions of which were published at the end of November 2017. That exercise aimed at providing detailed and harmonised information on the balance sheets and loan portfolios of the main European banks.

In 2018 Dexia Crédit Local will take part in the Targeted Review of Internal Models, which will be completed by an exercise to homologate the Stressed VaR model.

Governance

Dexia Crédit Local Group policy on risks is defined and supervised by the Board of Directors.

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

Role of the Risk Committee, the Management Board, the Transaction Committee and the ALCO Committee

The Risk Committee, created within the Dexia Board of Directors is responsible for monitoring aspects relating to risk strategy and the level of tolerance of both current and future risk, as defined by the Board of Directors. It assists the Board of Directors in its supervision of the implementation of that strategy.

The Management Board is responsible for implementation of the various policies and directives framing Group strategy, particularly with regard to risk. To facilitate Group operations, a system of delegation of Management Board powers has been put in place.

The Management Board delegates its decision-taking powers in relation:

- To operations giving rise to credit risks to a Transaction Committee;
- To balance sheet management operations to an ALCO Committee;
- To market operations to a Market Risk Committee.

The Risk activity line establishes risk policies and submits its recommendations to the Management Board and to the sub-committees. It deals with the monitoring and operational management of Group risks under the supervision of those committees.

Organisation of the Risk activity line

The Risk Management Executive Committee

The decision-taking body of the Risk activity line is its Executive Committee.

As at 31 December 2017, this committee consists of the head of Risks and the six heads of:

- The credit risk department,
- The market risk department,
- The operational risk department,
- The strategic risk and regulatory supervision department,
- The comprehensive risk assessment department,
- The governance, reporting and risk systems department.

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

In particular, the Executive Committee of the Risk activity line is responsible for monitoring models (developments, reviews, back testing, stress testing) on proposals from the teams responsible for the management of risk models, quantification and monitoring defaults and the market risks team. It regularly informs the Management Board and the Risk Committee of the use of models and, as the case may be, developments and/or difficulties.

The organisation and operation of the activity line also rely on other committees, the prerogatives of which are governed by a system for the delegation of powers, defined in relation to the nature of the risks to which the Group is exposed.

Risk Appetite Framework

The Risk Appetite Framework (RAF) is a regulatory requirement which defines Dexia Crédit Local's level of risk tolerance and falls within the implementation of Dexia Crédit Local's strategy. It defines the Group's risk profile, and qualifies the types of risk which Dexia Crédit Local is inclined to hold, minimise, attenuate or transfer in order to achieve its strategic objectives. The RAF considers Dexia Crédit Local's significant risks and relies on Dexia Crédit Local's strategy and capital forecasts.

The RAF was introduced in Dexia Crédit Local in 2016. It includes a declaration of risk appetite, qualitative and quantitative risk limits and an overview of the roles and responsibilities of bodies and functions which supervise implementation and monitoring. It is subject to regular monitoring and an annual review in order to integrate any new regulatory, strategic or operational development. A half-yearly schedule is presented by Risk Management to the Risk Committee and to the Board of Directors, with the aim of close and in-depth monitoring of the main risk indicators and of informing the Group's decision-making bodies. In 2017 this annual review was reflected by the integration of activity continuity indicators associated with the transition phase of the IT and back office outsourcing project, in order to assess and to analyse the operational risks associated with the implementation of such projects. It also allowed definition of the principles of assessment and integration in the RAF of any difference in the risk profile compared to the approved strategic plan.

Credit risk

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

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

Along with the Risk Committee, the Management Board and the Transaction Committee, the following three committees meet on a quarterly basis:

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

Market risk

Market risk represents the Group's exposure to changes in market parameters, such as interest and exchange rates. Interest rate risk consists of structural interest rate risk and specific interest rate risk associated with a given credit counterparty. The latter arises from fluctuations in the credit spread on specific counterparties within a rating class. The foreign exchange risk represents the potential decrease in the value of assets arising from fluctuations in exchange rates against the euro, which is the reference currency in which the Dexia Crédit Local Group prepares its financial statements. The interest rate and foreign exchange risks of the positions within the banking portfolio are part of the transformation risk.

Market risk policy and management are in the hands of the Management Board. To facilitate the Group's operational management, a system of delegated authority has been put in place:

- The **Market Risk Committee** is responsible for market risk governance and standards. It defines the risk limits that form the general framework for the Group's risk policy, analyses risk results and positions and approves risk measurement methods. It meets on a monthly basis.
- The **Valuation and Collateral Monitoring Committee** meets quarterly to analyse indicators relating to collateral management, to decide on action plans for significant valuation differences and to monitor the valuation of structured products.

Under the aegis of the Management Board and specialist risk committees, the market risk department identifies, analyses and monitors risks and results (including financial instrument valuations) associated with market activities.

Transformation risk

Monitoring transformation risk involves monitoring the risk of loss associated with the transformation of the banking portfolio, as well as liquidity risk. Transformation risk arises when assets are refinanced by resources presenting a different maturity, indexation or currency. It includes structural risks associated with the financing of holdings with equity in foreign currencies. Liquidity risk measures Dexia Crédit Local's ability to deal with its current and future cash requirements,

both on a discounted basis and in the event of a deterioration of the Group's environment, on the basis of a range of stress scenarios.
Within the Risk activity line, a dedicated ALM Risks team is in charge of defining the risk framework within which management may be placed in the hands of the Financial Strategy team within the Finance activity line, of validating the models used actually to manage that risk and of monitoring exposures and checking compliance with Group standards. ALM Risks also defines the stresses to be applied to the various risk factors, proposes the risk acceptance levels and ensures that it complies with the regulatory framework in force.

Operational risk and IT systems security

Operational risk represents the risk of financial or non-financial impacts arising from a shortcoming or failure in internal processes, personnel or systems, or external factors. This definition includes IT, legal and compliance risks.
The Management Board regularly monitors the evolution of the risk profile of the various Group activities and delegates the operational management of risk monitoring to the **Operational Risk Committee**. This committee examines the main risks identified and decides on the corrective actions to be taken. It validates measurement, prevention or improvement proposals in relation to the various elements of the mechanism. The Operational Risk Committee relies on committees dedicated to activity continuity and IT systems security, which examine and decide on actions to be taken to guarantee activity continuity and the implementation of a policy for IT systems security.
Operational risk, activity continuity and IT systems security management is coordinated by a central team within the Risk activity line supported by a network of correspondents within all subsidiaries and branches, as well as within the Group's various departments. Within each activity domain, an operational risk correspondent coordinates data collection and assesses risks, as well as proposing and monitoring remediation action plans. Supported by the operational risk management function, it ensures good operational continuity management.

Regulatory risk

To ensure a proactive response to the various regulatory requirements, the Regulatory Risk Committee is responsible for defining Dexia Crédit Local's general approach to prudential problems and ensuring exhaustive cover for the various regulatory topics. It informs the different managements of the main regulatory developments, asks for and organises the various impact analyses and liaises with the various international entities on the implementation of new reforms.

ICAAP/ILAAP

In 2017, Dexia Crédit Local established the Stress Tests and Pillar II Committee under the joint responsibility of the Finance and Risk activity lines in order to guarantee governance and consistency in the measurement of the risks of deviation from strategic plans, internal ICAAP and ILAAP processes and to ensure observance of the requirements formulated within the framework of the SREP. This committee approves all of these subjects prior to their submission to the Management Board, the Risk Committee and the Board of Directors.

Risk monitoring

Credit risk

Credit risk exposure

Dexia Crédit Local's credit risk exposure is expressed as Exposure at Default (EAD). It corresponds to the best estimate of credit risk exposure in the event of default. The definition of EAD used by Dexia Crédit Local is given in Note 7 in the Appendix to the consolidated financial statements.
As at 31 December 2017, Dexia Crédit Local's credit risk exposure was EUR 141.4 billion, compared with EUR 163.9 billion at the end of December 2016, a fall of 14%, associated with natural portfolio amortization as well as asset disposals and early redemptions.
Exposure was for EUR 73 billion in loans and EUR 58 billion in bonds. It is for the most part concentrated in the European Union (76%) and the United States (12%).

DEXIA GROUP EXPOSURE BY GEOGRAPHIC REGION

(in EUR million)	31/12/2016	31/12/2017
France	25,413	28,198
Italy	25,512	22,993
United Kingdom	25,447	22,175
Germany	20,689	17,835
United States	23,825	17,439
Spain	14,073	10,010
Japan	7,470	6,143
Portugal	3,868	3,891
Canada	2,654	2,071
Belgium	2,009	1,623
Austria	1,118	1,058
Central and Eastern Europe	1,843	954
Scandinavian countries	1,229	528
Southeast Asia	607	439
South and Central America	490	430
Switzerland	399	357
Turkey	367	169
Netherlands	128	88
Greece	155	71
Luxembourg	61	35
Ireland	103	10
Hungary	275	2
Others(1)	6,187	4,889
TOTAL	**163,923**	**141,406**

(1) Including supranationals and Israel.

As at 31 December 2017 the majority of exposures remained concentrated on the local public sector and sovereigns (74%), taking account of Dexia Crédit Local's historical activity.
Exposure on France increased following the deposit of a significant part of the Group liquidity reserve with the Bank of France.

DEXIA GROUP EXPOSURE BY CATEGORY OF COUNTERPARTY

(in EUR million)	31/12/2016	31/12/2017
Local public sector	89,275	75,609
Central governments	25,461	29,704
Financial institutions	19,798	13,135
Project finance	13,355	11,502
ABS/MBS	7,590	5,792
Corporate	6,403	4,183
Monolines	2,040	1,481
Individuals, SME and self-employed	0	0
TOTAL	**163,923**	**141,406**

The quality of the Dexia Crédit Local credit portfolio remained high, with 90% of exposures rated investment grade as at 31 December 2017.
Distribution by rating now takes account of the seniority of ratings – but this adjustment has a very minor impact on distribution by class.

GROUP EXPOSURE BY RATING (INTERNAL RATING SYSTEM)

	31/12/2016	31/12/2017
AAA	18.23%	21.02%
AA	17.87%	14.91%
A	24.07%	25.18%
BBB	29.44%	29.27%
Non Investment Grade	9.25%	8.43%
D	0.88%	0.78%
Not Rated	0.26%	0.41%
TOTAL	**100.00%**	**100.00%**

Particular attention is paid to the countries listed in the following table in view of the significant amounts of exposure or the degree of sensitivity. The main developments and significant facts for those sectors and countries in 2017 are presented in the following paragraphs.

DEXIA CRÉDIT LOCAL 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	28,198	12,915	3,064	1,985	0	10,233	0
Italy	22,993	9,739	399	609	0	12,247	0
United Kingdom	22,175	11,038	8,220	1,017	1,470	61	369
Germany	17,835	15,165	177	2,286	0	208	0
USA	17,438	9,684	611	2,505	2,383	1,144	1,112
Spain	10,010	5,484	1,777	2,067	275	407	0
Japan	6,143	4,503	0	1,055	0	585	0
Portugal	3,891	1,698	86	14	42	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

Dexia Crédit Local Group commitments on sovereigns

Dexia Crédit Local commitments on sovereigns are concentrated essentially on Italy and to a lesser extent on Portugal and the United States.
Sovereign exposure on France, in an amount of EUR 10.2 billion as at 31 December 2017, includes a significant part of the Group liquidity reserve, on deposit with the Bank of France.
In 2017, Dexia Crédit Local took advantage of favourable conditions to dispose of some of its sovereign exposure, in particular in Poland (EUR -672 million).

Dexia Crédit Local Group commitments to the local public sector

Considering Dexia Crédit Local's historical activity as a lender to local authorities, the local public sector represents a significant proportion of the Group's outstanding, principally concentrated in the countries of Western Europe (France, Italy, United Kingdom, Germany, Spain) and in North America.

France

The quality of the Group's portfolio, consisting mainly of outstanding on local authorities and social housing, remains very good, with a very limited number of payment incidents observed.

Over the year, Dexia Crédit Local continued its policy of assisting French local authorities, in order to reduce its outstanding of sensitive structured credits, which appear on the Dexia Crédit Local balance sheet at EUR 616 million as at 31 December 2017.

Spain

The Spanish State's support to the regions and municipalities continued through the renewal of several financial support funds: EUR 31 billion was paid to the regions in 2017, particularly by the Autonomous Liquidity Fund (FLA). In consideration for such aid, the State control over regional or local finances was increased: the expected deficit of the regions should be reduced to -0.6% of GDP in 2017 (against a target of -0.7% of GDP in 2016).

Catalonia and Valencia are two large Spanish regions which are not major centres of economic attractiveness for Spain. Their financial situation remains tense and comparable (negative savings, heavy indebtedness, tight liquidity, dependence on short-term refinancing). Dexia Crédit Local Group's exposure to Catalonia and Valencia amounted to EUR 1.7 billion and EUR 0.7 billion respectively. The year 2017 was marked by political tensions between the Catalan regional government and the Spanish government. In mid-September, the Spanish State took over the region's treasury and guaranteed payments.
No payment incident was recorded on direct or indirect exposures to those two regions and their satellites.

United States

In 2017, Dexia Crédit Local remained extremely vigilant as to the evolution of the US public sector, in particular the Commonwealth of Puerto Rico, where the situation remains fragile. The federal board for the financial rehabilitation of the Commonwealth included the central government debt on Puerto Rico, the majority of the public service enterprises and civil servant retirement pension funds under Chapter III[1] of the PROMESA Law, promulgated by Congress in 2016. These entities have ceased payments. When their obligations are subject to insurance by monolines, service of the debt is taken over by the latter.
In September 2017 the island was severely hit by Hurricane Maria. A first federal aid plan of USD 15 billion was passed in September, and emergency aid was paid in October.
Against that background, Dexia Crédit Local decided to dispose of certain positions on Puerto Rico, for a total of EUR 343 million (USD 412 million). The Dexia Crédit Local Group's residual exposure amounted to EUR 88 million as at 31 December 2017 and was limited to public enterprises associated with the Commonwealth of Puerto Rico. Although entirely covered a monoline, certain distant redemption maturities without intermediary amortisation require careful attention. Total provisions amounted to EUR 35.7 million (USD 42.8 million) as at 31 December 2017.
Furthermore, Dexia Crédit Local is also closely monitoring the financial situation of the Chicago Board of Education (CBOE), in view of the very high debt level, under-financing of pension funds and the ongoing decline of student registrations. These difficulties are amplified by the delay of the State of Illinois in paying subsidies to the CBOE. As a consequence, the latter increased its portion of short-term financing, the conditions of access to which have hardened. The year 2017 should close with a significant deficit as well as a relatively low liquidity level. The budget for 2018 was approved in an amount of USD 5.7 billion and in particular includes aid from the State of Illinois (USD 300 million), the city of Chicago (USD 269 million) and the proceeds of new real estate taxes. In view of the reaffirmed support of the State of Illinois, the credit profile of the CBOE has stabilised: it continues to meet its commitments and has pre-financed the service of its financial debt until March 2018. Dexia Crédit Local's exposure to the CBOE amounted to EUR 417 million and total provisions to EUR 33 million (USD 40 million) as at 31 December 2017.

(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 Head of the Supreme Court of the United States, inspired by Chapters 9 and 11 of the Federal Bankruptcy Act.

Dexia Crédit Local Group commitments to project finance and corporates

The project finance and corporate loans portfolio amounted to EUR 17.3 billion as at 31 December 2017, down 17% on the end of 2016. Beyond natural amortisations and certain early redemptions, this portfolio contracted on the one hand as a result of opportunistic disposals, the fall of the fair value component and, on the other hand, as a result of exchange rate effects (particularly in the UK Utilities sector).
This portfolio consists 67% of project finance[2], the balance being in finance to corporates, such as financing for acquisitions, commercial transactions or corporate bonds. Dexia Crédit Local is following a policy of disengagement vis-à-vis its counterparties, and in 2017 disposed of positions in the Utilities sector for an amount of EUR 2.5 billion.
The portfolio is good quality: 76% project finance and 96% finance to corporates rated investment grade.
Furthermore, the diplomatic crisis between Qatar and its neighbours is being monitored carefully. Dexia Crédit Local exposure to Qatar corresponds to the financing of nine projects for an exposure of EUR 283 million. They correspond either to desalination / electricity production plants or the production / transport of natural gas (LNG). All of these projects are of very good quality and do not appear to be impacted to date by the diplomatic crisis.

Dexia Crédit Local Group commitments to ABS

In 2017, Dexia Crédit Local committed to a voluntary reduction of its ABS portfolio. Under favourable market conditions, the Group disposed of EUR 1.7 billion in assets over the year, in particular ABS on US government student loans. As a consequence, as at 31 December 2017, the Group's ABS portfolio was down 35%, to EUR 4.2 billion. The ABS portfolio on student loans still represents a major part of the portfolio (EUR 2.4 billion). These loans are guaranteed in an amount of EUR 2.3 billion by the US Federal State and present a rather long amortisation profile and a limited expected loss. The balance consists for the most part of residential mortgage-backed securities (RMBS) for EUR 0.4 billion, of which EUR 0.2 billion in Spain.
The quality of the portfolio remained stable overall with 97% of the portfolio rated investment grade at the end of December 2017, almost all of the tranches in which Dexia Crédit Local has invested being at a senior level.

Dexia Crédit Local Group commitments to financial institutions

Dexia Crédit Local Group commitments to financial institutions amounted to EUR 13.1 billion as at 31 December 2017, down EUR 6.7 billion since December 2016. Commitments consist 73% of bonds, covered bonds and repo operations with financial institutions. The balance includes exposures associated with loans to financial institutions and derivatives.
Dexia Crédit Local exposures are concentrated 19% in the United States and 67% in Europe, principally in Spain (16%), Germany (17%), France (15%) and the United Kingdom (8%). The portfolio's credit remained stable overall in 2017.
In 2017, Dexia Crédit Local paid particular attention to the situation of Spanish banks, considering the tense political situation in Catalonia. The Group's exposure to the Spanish

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

banking sector was principally concentrated on investment grade issuers and was composed of Spanish covered bonds with a limited exposure to Catalan banks (EUR 126 million).
Finally the evolution of the Deutsche Bank Group, the situation of which stabilised in the spring by virtue of a recapitalisation of EUR 8 billion, was monitored carefully. Dexia Crédit Local's exposure to that Group amounted to EUR 0.9 billion as at 31 December 2017.

Dexia Crédit Local Group commitments to monolines

Dexia Crédit Local is indirectly exposed to the quality of the signature of monolines, through insurance contracts to cover the timely end of certain types of bonds issued in the form of securities or loans. Through their insurance policy, these monolines irrevocably and unconditionally undertake to repay the principal and interest payable on credits in the case of the underlying counterparty defaulting. In certain cases this activity also results in a reduction of capital requirements.
Dexia Crédit Local carefully monitors the financial situation of monolines which were particularly affected by the climatic events in the autumn of 2017 and the failure of negotiations to restructure the debt of Puerto Rico.
As at 31 December 2017, EUR 13.9 billion of the Dexia portfolio was insured by monolines, including 93% of assets insured by monolines rated investment grade by one or more rating agencies. All but two of them (FGIC and AMBAC's Segregated Account) continue to pay all claims on time and in full.

Impairment on counterparty risk – Asset quality

ASSET QUALITY

(in EUR million)	31/12/2016	31/12/2017
Impaired assets	1,062	876
Specific impairments	319	256
Coverage ratio[1]	30.1%	29.2%
Collective provisions	413	327

(1) Ratio between the specific impairments and the impaired assets.

Dexia Crédit Local's stock of impaired assets amounted to EUR 876 million as at 31 December 2017, down EUR 186 million on the end of 2016. Specific impairments allocated amounted to EUR 256 million, down EUR 63 million on 31 December 2016.
This fall of impaired assets and specific impairments is essentially explained by the exposures to Spanish motorway projects and public enterprises associated with the Commonwealth of Puerto Rico as well as the latest Dexia Crédit Local outstanding on the city of Athens.
Furthermore, the restructuring of several impaired assets enabled the provisions on those exposures to be reversed.
As a consequence, the coverage ratio was at 29.2% as at 31 December 2017.
In addition to specific impairments, Dexia Crédit Local has collective (statistical and sector) provisions in a total amount of EUR 327 million as at 31 December 2017, against EUR 413 million as at 31 December 2016.
The observed fall is principally due to the reduction of the calculation basis for collective provisions following disposals and redemptions.
To facilitate monitoring and comparison between the various European banks, the European Banking Authority harmonised the definition of Non-Performing Exposure (NPE) and Forbearance.

- Non-performing exposure includes outstanding unpaid for more than 90 days for which the Group thinks that the counterparty is unable to repay without the implementation of guarantees. As at 31 December 2017 outstanding on non-performing exposures was EUR 1.6 billion, corresponding to 97 counterparties.
- The definition of forbearance groups together facilities granted by banks to counterparties experiencing or about to experience financial difficulties in dealing with their commitments (facilities which banks would not otherwise have granted). As at 31 December 2017, 57 counterparties were the object of forbearance, in an outstanding amount of EUR 1.1 billion.

Market risk

Risk measurement

The Dexia Crédit Local Group mainly assesses market risk using a combination of two measurement indicators, resulting in a limit-based risk management framework.

- Value at Risk (VaR) is a measure of the expected potential loss with a 99% confidence interval and for a holding period of ten days. Dexia Crédit Local uses a number of VaR approaches to measure the market risk inherent in its portfolios and activities:

– Directional interest rate risk and foreign exchange risk are measured via a parametric VaR approach using a methodology based on the assumed normal distribution of yields relating to various risk factors.
– Credit spread risk (also known as specific interest rate risk) and other risks in the trading portfolio are measured using a historical VaR approach the distribution of which is constructed by applying historical scenarios for the relevant risk factors associated with the current portfolio.

- Limits in terms of position, maturity, market and authorised products are put in place for each type of activity, ensuring consistency between overall value limits and operational thresholds used by front office.

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

Exposure to market risk

The Dexia Crédit Local trading portfolio is composed of two groups of activity:

- Transactions initiated by financial instrument trading activities until the date on which the Group was placed in orderly resolution, mostly covered back-to-back;
- Transactions intended to hedge risks arising from disinvestments or asset sales within the framework of the orderly resolution plan.

The main risk factors of the trading portfolio are:

- Interest rate risk, in particular on the euro zone and the dollar zone,
- Cross currency basis swap risk,
- Basic risk BOR-OIS.

Value adjustments (CVA, DVA, FVA) and their variation are not included in the VaR model but are included in stress scenarios.

Value at Risk (VaR)

The detail of the VaR from the market activities of the trading portfolios is presented in the following table. At the end of December 2017, total consumption in VaR was EUR 3.3 million against EUR 8.2 million at the end of 2016.

VALUE AT RISK FROM THE MARKET ACTIVITIES OF THE TRADING PORTFOLIOS

(in EUR million)	2016				2017			
VaR (10 days, 99%)	Interest	Spread (Trading)	Other risks	Total	Interest	Spread (Trading)	Other risks	Total
Average	6	2.8	0.2	9	2.5	3.8	0.1	6.5
End of period	4	4.1	0.2	8.2	1.5	1.8	0.1	3.3
Maximum	10.4	4.1	0.2	14	3.0	4.2	0.1	7.3
Minimum	2.4	2.3	0.2	5.1	1.5	1.8	0.1	3.3

Sensitivity of portfolios classified as “available for sale” to the evolution of credit spreads

The sensitivity of the AFS reserve for available-for-sale portfolios to an increase in credit spreads is closely monitored. At the end of 2017, this sensitivity amounted to EUR -10 million for a one basis point increase in credit spreads, against EUR -13 million at the end of 2016. Sensitivity to interest rate fluctuations is extremely limited, as interest rate risk is hedged.

Transformation risk

Dexia Crédit Local’s asset and liability management (ALM) aims to reduce liquidity risk as far as possible, and to limit exposure to interest rate and foreign exchange risk.

Management of interest rate and exchange rate risk

Measurement of interest rate risk

Interest rate risk is measured via sensitivity. Risk sensitivity measures reflect balance sheet exposure to a 1% shift on the yield curve. The main indicator used to determine limits and to measure and monitor risk is the sensitivity of the net present value of accrued interest positions to interest rate fluctuations.

The overall and partial sensitivities by time bucket are the main risk indicators used by the ALM risk committee, organised within the ALCO, to manage risk. Dexia Crédit Local’s structural interest rate risk is mainly concentrated on European long-term interest rates, and arises from the imbalance between Dexia Crédit Local’s assets and liabilities after hedging for interest rate risk.

The sensitivity of long-term ALM was EUR +13.9 million as at 31 December 2017, compared with EUR +8.8 million as at 31 December 2016. This is in line with the ALM strategy, which seeks to minimise income statement volatility.

(in EUR million)	2016	2017
Sensitivity	8.8	13.9
Limit	+/– 80	+/– 80

Measurement of foreign exchange risk

With regard to foreign exchange, the ALCO decides on the policy to hedge foreign exchange risk generated by the existence of assets, liabilities, income and expenditure in currencies. Also subject to regular monitoring are:

- The structural risks associated with the funding of holdings in foreign currencies;
- Elements liable to increase the volatility of the solvency ratios of the Group or its subsidiaries and branches.

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

Management of liquidity risk

Dexia Crédit Local’s policy on the management of liquidity risk

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

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

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

To manage the Group’s liquidity situation, the Management Board regularly monitors the conditions for funding transactions on the market segments on which Dexia Crédit Local operates. It also guarantees proper execution of the funding programmes put in place. To that end, a specific and regular mode of information has been introduced:

- Daily and weekly reports are provided to members of the Management Board, the State guarantors and shareholders and the supervisory authorities. This information is also used by all parties involved in managing the Dexia Crédit Local Group’s liquidity position, in particular the Finance and Risk teams in charge of these topics, and the Funding and Markets activity line;
- The twelve-month funding plan is sent monthly to the State shareholders and guarantors, central banks and the supervising authorities;
- Fortnightly conference calls are held with the supervisory authorities and (European, French and Belgian) central banks.

Liquidity risk measurement

In 2015, the European Central Bank (ECB) decided to apply a tailored, pragmatic and proportionate supervisory approach to Dexia Crédit Local, taking into consideration its specific and unique situation of being a bank in resolution. This approach was extended in 2016 and 2017.

The ECB informed Dexia Crédit Local that this approach would be renewed in 2018[1]. Nevertheless, that renewal is accompanied by a convergence towards the general super-

(1) Cf. Dexia Press Release dated 5 February 2018, available at www.dexia.com.

visory framework, reflected by the strengthening of certain requirements, in particular regarding observance of the Liquidity Coverage Ratio (LCR). Indeed the requirement applicable to Dexia Crédit Local by virtue of the Liquidity Coverage Ratio (LCR) amounted, as at 1 January 2018, to a minimum of 100% at company and consolidated levels. If this minimum level is not kept, Dexia Crédit Local 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.
The Dexia Crédit Local Group posted a consolidated LCR ratio of 111% as at 31 December 2017, against 80% as at 31 December 2016.

Operational risk and IT systems security

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

Dexia Crédit Local's policy regarding operational risk management consists of regularly identifying and assessing the various risks and implementing corrective actions or improvements to reduce the most significant operational risks. This system is supplemented by a prevention policy in particular covering information security, business continuity and, when necessary, the transfer of certain risks via insurance.

Risk measurement and management

Operational risk management has been identified as one of the pillars of Dexia Crédit Local's strategy within the context of its orderly resolution.
This risk is monitored within the framework of the standard approach determined by the Basel regulatory methodology. Under this methodology, information relating to the operational risk must be transferred to the managers in charge of monitoring this risk, and the tasks identified as critical must be monitored.
The operational risk management system relies on the following components.

- Operational risk database: the systematic capture and monitoring of operational incidents is one of the most important requirements of the Basel Committee. Fulfilling its regulatory obligations, Dexia Crédit Local has put a system in place to list operational incidents and to gather specific data. The information gathered enables it to improve the quality of its internal control system.
- Over the last three years, 99% of losses under the Basel definition originated from the category "Execution, Deliveries and Process Management". The other categories ("Customers, Products and Business Practices", "Failure of Systems or IT Infrastructure" and "External Fraud") represent 42% of the total number of incidents but less than 1% of total losses. Most operating incidents are declared on a failure of a business line process, an incident the direct cause of which is often a failure in the correct operation of IT systems.

The principal incidents are subject to corrective actions approved by the management bodies.

- Risk and control self-assessment: as well as building a history of losses, Dexia Crédit Local's exposure to key risks is determined via an annual risk mapping exercise. All Dexia Crédit Local Group entities conduct risk self-assessment exercises that take into account existing controls, thus providing an overall view of all the areas of risk within the Group's various entities and businesses. The overall mapping is presented each year to the Management Board. Actions to limit risk may be defined where applicable.
- Definition and monitoring of action plans: remedial actions are defined to avoid major incidents recurring, to correct deficient controls or to reduce important risks identified. Regular monitoring is carried out by the operational risk management function. This process allows the internal control system to be constantly improved and risks to be reduced appropriately over time.
- Key Risk Indicators (KRI): KRI have been developed and enable the Operational Risk Committee to monitor the evolution of the principal risks identified in the operational risk mapping.
- Information security management: the information security policy and the associated instructions, standards and practices are aimed at ensuring that Dexia Crédit Local's information assets are secure.
- Activity continuity management: all the activities take place in a secure environment. The business lines establish impact analyses for vital activities in the case of disaster or interruption. They define and then regularly update recovery plans.

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

Management of operational risk during the period of resolution

The transformation of the Dexia Crédit Local Group within the context of its orderly resolution is by nature propitious to the development of operational risks. In 2017, the operational risk department developed several initiatives to strengthen the analysis, measurement and management of those risks:

- Definition and introduction of operational continuity risk indicators in particular enabling the Management Board and Board of Directors to monitor IT, HR and outsourcing risks.
- Development of a new more complete and granular methodology for analysis of the causes and consequences of operational incidents.
- Application of that risk analysis to the transformation of activities (outsourced activities and financial market activities) and to the main mapped critical processes of the Group and the definition and monitoring with the business lines of action plans to reduce and to limit the highest operational risks over the short and medium term.

Stress tests

Stress tests and scenario analyses

Dexia Crédit Local performs many scenario analysis exercises and stress tests in a transversal and integrated approach to the Group's risk management process.
These exercises used for the purposes of internal guidance also helps to ensure the observance of regulatory requirements in that regard, particularly those relating to Pillar II and the ICAAP and ILAAP processes defined by the European Central Bank and the EBA guidelines "Common procedures and methodology for Supervisory Review and Evaluation Process (SREP Guidelines)" and "EBA guidelines on institutions' stress testing". In association with those requirements, a complete stress test programme is implemented to guarantee consistent articulation between the various types of stress (particularly market, Pillar I credit and liquidity).

As in 2016 stress tests in addition to those performed within the ICAAP / ILAAP framework were applied:

• Specific credit stress tests for the main asset classes. In particular, within the framework of Basel Pillar 1, the credit exposures covered by internal rating systems were subjected to sensitivity tests, of macroeconomic, historic and expert scenarios. The results of the stress tests are contrasted with the results of the risk and capital approach on credit risk.

• Market stress tests (highlighting potential events outside the probability of VaR measurement techniques); they have been divided into tests of unique risk factors, tests of historic scenarios and tests of hypothetical scenarios.

• Stress tests associated with the structural interest rate risk enabling the potential impact on Dexia Crédit Local equity of a sudden and unexpected fluctuation of interest rates, to be measured, responding to regulatory expectations.

• Liquidity stress tests enabling additional liquidity requirements to be estimated in exceptional but plausible scenarios against a certain horizon. Their aim is to identify possible vulnerabilities and simultaneously in an adverse shock situation to assess the possible increase of risk-weighted assets, additional liquidity requirements or capital requirements.

• A series of specific stress tests (sensitivity analysis, scenario-by-scenario analysis) relying on macroeconomic scenarios simulating crisis situations (possible impacts of Brexit, stress of Italian banks). They have been estimated, approved internally and forwarded to the supervisory authorities. In association with the Pillar 2 requirements and the requirements of capital adequacy measures, these stress tests are performed in the same operational setting as that of the Pillar 2 process and align as requirement by the regulations with the ICAAP and ILAAP processes.

For ICAAP and ILAAP stresses, Dexia Crédit Local regularly makes a complete review of its vulnerabilities in order to cover all material risks, associated with its business model under stressed macroeconomic and financial conditions. This review documented by the ICAAP process is applied and completes the financial planning process. In addition, reverse stress tests are also performed.

Crisis simulations for the purposes of ICAAP and ILAAP, described in detail in the following section, are performed twice per annum and are the object of internal validation and verification. In accordance with regulatory requirements, the complete annual exercise for 2017 was forwarded to the ECB. These tests form an integral part of the Risk Appetite Framework (RAF) and are incorporated in the definition and review of global strategy. The link between risk tolerance, adaptations of the strategic resolution plan and ICAAP and ILAAP stress tests is guaranteed by the specific capital consumption indicators which form a part of the RAF.

Litigation

Like many financial institutions, Dexia is subject to a number of regulatory investigations and was named as a defendant in a number of lawsuits, including class action suits in the United States and Israel. Moreover, the reduction of the Group's scope, along with some measures implemented within the framework of Dexia's resolution, has raised questions from some of its stakeholders or counterparties. Such litigation is referred to below. Unless otherwise indicated, the status of such disputes and investigations is summarised below as at 31 December 2017 and based on information available to Dexia on that date.

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

As assessed by Dexia in accordance with the information available to it on the aforementioned date, the consequences of the principal disputes and investigations likely to have a material impact on the Group's financial position, performance or activities are reflected in the Group's consolidated financial statements. Subject to the general terms and conditions of professional indemnity and Directors' liability insurance policies taken out by Dexia, any negative financial consequences of some or all of these disputes and investigations may be covered, in full or in part, by those policies and, subject to the insurers in question accepting such risks, may be offset by any payments that Dexia may receive under the terms of those policies.

In addition, the Group has set aside provisions in respect of certain of these risks. Due to the nature of these proceedings, any indication as to whether provisions have been set aside in connection with them or their subject matter and, if so, the amount of any such provisions, could seriously prejudice Dexia's legal position or defence in connection with those legal actions or any related proceedings.

Financial Security Assurance

During 2016, Dexia substantially resolved most of the civil actions brought against Financial Security Holdings Ltd (now Assured Guaranty Municipal Holdings Inc.) and its subsidiary Financial Security Assurance Inc. (now Assured Guaranty Municipal Corp.), both former subsidiaries of Dexia Group, in connection with bidding on and entering into municipal derivatives transactions, including guaranteed investment contracts (GICs[1]), with municipal bond issuers. Settlement agreements were executed with the relevant plaintiffs while the proceedings brought by U.S. authorities (SEC and DOJ) have ended. The main class action, which was not directly targeting FSA or another entity related to Dexia, was also settled during 2016. The one remaining civil action brought against FSA Holdings, or Dexia entities, was resolved in 2017

Dexia Crediop

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

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

Litigation in relation to the hedging transactions

On 11 January 2017, the Civil Court of Messina declared that it had no jurisdiction regarding the claim filed by the City of Messina, thereby referring to the decision of the Italian Supreme Court of 23 October 2014, in which the Supreme Court declined the jurisdiction of the Italian courts in favour of the English courts, as had also already been decided by the Administrative Court in Sicily on 10 July 2015. Accordingly, the claim brought by Messina was dismissed. As payment defaults by the City of Messina persisted, Dexia Crediop resolved to file a claim in London.
On 15 June 2017, the Court of Appeal in London issued a judgment in the Prato case by means of which the Court of Appeal overturned the High Court Judgments and dismissed Prato's counterclaim in the civil proceedings by stating that: (i) derivative contracts entered into between Dexia Crediop and Prato in the period 2002-2006 were valid and binding; (ii) Prato had full capacity to enter into the derivative contracts; (iii) the margin applied by the bank to the derivative contracts was necessary to cover its risks and expected costs and the concept of "implicit costs" was unfounded. The City of Prato was ordered, inter alia, to reimburse Dexia Crediop's legal costs and to pay default interest on the unpaid nettings. The Court of Appeal also dismissed Prato's application for permission to appeal such judgment before the Supreme Court. Prato filed a specific request to file an appeal directly with the Supreme Court. On 18 December 2017, the Supreme Court confirmed the lower court's decision. A criminal proceeding before the Criminal Court of Prato is also ongoing in this matter. While the tribunal issued an acquittal on 31 May 2017, the public prosecutor decided to appeal such decision on 16 October 2017.
Dexia Crediop also entered into settlement agreements with other parties in the course of 2017; these settlements confirm the legality, validity and binding effect of the derivative contracts that had been entered into.

Other litigation involving Dexia Crediop

On 5 April 2016, Dexia Crediop was summoned before the Civil Court in Rome by PICFIC (Provincia Italiana della Congregazione dei Figli dell'Immacolata Concezione), currently in extraordinary administration. That summon aims at obtaining a declaration confirming that the assignments of receivables entered into with Dexia Crediop in 2012 are null and void (claw-back action). The lawsuit is ongoing.
The lawsuit brought by Dexia Crediop in 2013 to obtain payment of part of the assigned receivables that remain unpaid is also still pending.
Dexia Crediop is also involved in a litigation concerning the Istituto per il Credito Sportivo ("ICS"), an Italian public bank in which Dexia Crediop is a quota holder, together with other Italian private financial institutions. In 2012, the extraordinary administrators of ICS challenged the nature of the subsidies granted to ICS, which were reclassified as equity. The quota holdings in ICS and the dividend distributions since 2005 were challenged as a result of the self-redress decisions to annul ICS's by-laws and the dividend distributions. In September 2015, the Council of State rejected the appeal of Dexia Crediop and the other ICS' quota holders by confirming the judgment of the Administrative Court of Lazio and the annulment of the 2005 ICS's by-laws, stating inter alia that the decisions on dividend distributions are subject to the jurisdiction of the civil courts. Dexia Crediop decided not to appeal the decision. The civil court proceedings relating to the dividends distributions and the new ICS' by-laws are ongoing.
On 18 July 2016, Dexia Crediop was summoned before the Civil Court in Rome by LIRI (Livorno Reti e Impianti S.p.A.), currently in voluntary winding-up, in relation to a loan agreement entered into in 2003 with Dexia Crediop and another bank (50% each). LIRI is challenging the loan by alleging, inter alia, that the loan embeds a derivative agreement including hidden costs. The lawsuit is ongoing.
At present, Dexia Crediop is unable reasonably to predict the duration and outcome of these proceedings, and their potential financial repercussions.

Structured loans litigation

Dexia Crédit Local (DCL) is involved in a number of cases brought by local authorities to which it had granted structured loans. As at 31 December 2017, 37 clients had issued summonses against DCL in connection with structured loans (compared to 51 clients at the end of 2016), of which 23 concern structured loans held by the Société Française de Financement Local (SFIL), parent company of the Caisse Française de Financement Local (CAFFIL), 12 concern structured loans held by DCL and 2 concern both institutions. It must be noted that DCL did not give any representation or warranties on the loans of CAFFIL at the time of the sale of SFIL in January 2013. Nevertheless, DCL, as legal representative of CAFFIL until the time of the sale, remains responsible for any damages granted to a borrower solely in case of non-fulfilment of its regulatory obligations relating to the marketing by DCL of the structured loans held by CAFFIL at the time of the sale.
For the ongoing litigation, four important rulings were passed by the Court of Appeal in Versailles on 21 September 2016. In these decisions, the Court dismissed the four borrowers' claims and recognized the validity of the contracts, the validity of the borrower's obligations and DCL's compliance with its duty of information. As these decisions were pronounced by a special chamber of the Court of Appeal, they are considered as "in principle decisions" which could not be easily contested. All borrowers appealed this decision before the *Cour de Cassation*.
Dexia Kommunalbank Deutschland (DKD), a subsidiary of DCL, was also summonsed in a small number of disputes relating to structured loans. In two of these cases, the German courts decided in 2017 that DKD had not sufficiently fulfilled its duty of financial advice and considered the interest formula applied by DKD to be invalid. In one of these cases, a decision as to the amount of damages still has to be taken.
In spite of the aforementioned developments, at present DCL and DKD are unable reasonably to predict the duration or outcome of the remaining investigations and legal proceedings in progress, or their potential financial repercussions.

Dexia Israel

In December 2011, individual shareholders had filed a class action lawsuit against Dexia Crédit Local (DCL), Dexia Israel (DIL) and the Union of Local Authorities in Israel (ULAI). This action was based, inter alia, on an alleged failure to complete the process of equalising the rights attached to shares in DIL. On 7 October 2014, a new derivative action was brought by certain shareholders (including one of the instigators of the class action of December 2011) against DCL, DIL's CEO and 13 of DIL's current and former directors. The claim related to an alleged boycott of local authorities by DIL in the production of loans in the provinces of Judea and Samaria.

On 15 January 2016, a settlement was agreed by the parties in those two cases, allowing for a waiver of their claims by the plaintiffs. In June 2016 and January 2017, the Tel Aviv Court approved the terms of the settlement and the consideration due to the plaintiffs and their counsels. The approval allowed Dexia Israel to initiate and to 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.

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Information on capital and liquidity

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

Share capital

Share capital and number of shares

As at 31 December 2017, the share capital of Dexia Crédit Local amounted to EUR 279,213,332. It is divided into 279,213,332 shares with a nominal value of EUR 1.00. Each share gives a right to one vote and none is subject to pledge. To date, there is no other security giving access to the capital of Dexia Crédit Local.

Shareholding structure

Dexia Crédit Local's share capital is held directly and almost exclusively by Dexia. The Chief Executive Officer holds one registered share in the company.
Indirectly, through Dexia, Dexia Crédit Local's capital is held 52.78% by the Federal Holding and Investment Company (FHIC) acting under delegation on behalf of the Belgian government and 46.81% by the French government.

As at 31 December	2013	2014	2015	2016	2017
Capital (in EUR)	1,286,032,212	223,657,776	223,657,776	279,213,332	279,213,332
Number of shares	223,657,776	223,657,776	223,657,776	279,213,332	279,213,332
Dexia	223,657,763 shares	223,657,764 shares	223,657,770 shares	279,213,332 shares	279,213,332 shares
Individual investors (directors)	13 shares	12 shares	6 shares	1 share	1 share

Dividends paid during the past five years

No dividends have been paid in respect of the past five years and the Board of Directors will propose at the next shareholders' meeting that no dividend be paid in respect of 2017.

Regulatory capital and solvency

Dexia Crédit Local monitors its solvency using rules established by the Basel Committee on Banking Supervision and European Directive CRD IV. On the other hand, the Group ensures observance of the capital requirements imposed by the European Central Bank (ECB), within the framework of Pillar 2 of Basel III, following the Supervisory Review and Evaluation Process (SREP).
The year 2017 was marked by the 80% deduction of the AFS reserve, compared to 60% in 2016, in accordance with the calendar defined by the CRD IV Directive.

Prudential requirements applicable to Dexia Crédit Local with regard to solvency

The European Central Bank has informed Dexia and Dexia Crédit Local(1) of the qualitative and quantitative regulatory capital requirements which are applicable to them and certain of their subsidiaries as from 1 January 2018, in accordance with Regulation (EU) No 1024/2013 of the Council dated 15 October 2013.

(1) Cf. Press Release issued by Dexia on 5 February 2018, available at www.dexia.com.

In this regard, the level of total SREP capital requirement applicable to Dexia Crédit Local in 2018 has been set at 10.25% on a consolidated basis. This level includes a minimum own funds requirement of 8% (Pillar 1) and an additional own funds requirement of 2.25% (P2R – Pillar 2 Requirement). By including the capital conservation buffer, of 1.875% in 2018, this brings the capital requirement to 12.125%.
These levels are also applicable to Dexia Kommunalbank Deutschland and Dexia Crediop.

Regulatory capital

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

In accordance with regulatory requirements and applicable transitional provisions:

• Gains and losses directly recognised in equity as revaluation of sovereign and non-sovereign bonds and shares classified as "available for sale" (AFS) are progressively taken into consideration over a period of five years from 1 January 2014 at 20% per annum cumulatively, i.e. 80% in 2017.

• Non-controlling interests are partially eligible for Tier 1 capital; their limited inclusion is the object of transitional provisions;

• Certain adjustments on subordinated and hybrid debt must be taken into consideration in the calculation of capital in order to reflect the loss-absorption characteristics of these instruments.

As at 31 December 2017, Dexia Crédit Local's Total Capital was EUR 5.6 billion, against EUR 5.8 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 -4.0 billion as at 31 December 2017, a strong improvement of EUR +1.3 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 -2.6 billion as at 31 December 2017, whilst the amount was EUR -2.5 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).

Dexia's Common Equity Tier 1 capital followed a similar trend and was at EUR 5.4 billion as at 31 December 2017, against EUR 5.7 billion as at 31 December 2016.

REGULATORY CAPITAL (in EUR million)	31/12/2016	31/12/2017
Total Capital	**5,802**	**5,629**
Common Equity Tier 1 Capital	**5,676**	**5,354**
Core shareholders' equity	8,193	7,809
Eligible gains or losses directly recognised in equity(*)	(2,546)	(2,605)
Cumulative translation adjustements (group share)	202	120
Actuarial differences on defined benefit plans	0	0
Non-controlling interests eligible in Tier 1	259	197
Items to be deducted:		
Untangible assets and goodwill	*(32)*	*(34)*
Ownership of Common Equity Tier 1 instruments in financial institutions (>10%)	*(7)*	*0*
Own credit risk	*(148)*	*0*
DVA	*(80)*	*(48)*
AVA	*(166)*	*(84)*
Additional Tier 1 Capital (Hybrid)	**11**	**28**
Subordinated debt	34	28
Items to be deducted:		
Ownership of Tier 1 instruments in financial institutions (>10%)	*(23)*	*0*
Tier 2 Capital	**115**	**247**
Subordinated debt	38	33
of which additional Tier 1 reclassified	*23*	*28*
IRB provision excess (+); IRB provision shortfall 50% (-)	247	214
Items to be deducted:		
Ownership of Tier 2 instruments in financial institutions (>10%)	*(170)*	*0*

(*) Eligible amount of available for sale reserve, reserve for reclassified financial assets and cash flow hedge reserve as well as eligible gains or losses directly recognised in equity for non current assets held for sale.

As at 31 December 2017, the Group's Tier 1 hybrid capital securities represented a nominal total of EUR 56 million, including EUR 28 million eligible as additional Tier 1.

No hybrid debt buyback operations were carried out in 2017. Dexia Crédit Local's hybrid Tier 1 capital therefore consists of EUR 56.25 million nominal of perpetual non-cumulative securities issued by Dexia Crédit Local. These securities (FR0010251421) are listed on the Luxembourg Stock Exchange.

Total outstanding Tier 2 subordinated debt amounted to EUR 196 million as at 31 December 2017 and included EUR 5 million of eligible subordinated debt. Taking account of the additional Tier 1 reclassified and the IRB provision excess, Tier 2 Capital amounted to EUR 247 million.

Dexia's revised orderly resolution plan includes certain restrictions concerning the payment of coupons and the exercise of calls on subordinated debt and hybrid capital from the Group's issuers. In this way, Dexia is only required to pay coupons on hybrid capital and subordinated debt instruments if there is a contractual obligation to do so. Dexia cannot exercise any discretionary options for the early redemption of these securities.

In addition, as announced by Dexia on 24 January 2014, the European Commission refused to authorise the Group's proposal to repurchase the hybrid capital debt issued by Dexia Funding Luxembourg (XS0273230572), noting that the subordinated creditors must share in the financial burden resulting from the restructuring of financial institutions that have been granted State aid. The European Commission has also informed Dexia that it is authorised to communicate this information to the holders of this instrument and to the holders of financial instruments with identical characteristics. Financial instrument FR0010251421 issued by Dexia Crédit Local has similar characteristics.

The European Commission requested that Dexia and Dexia Crédit Local communicate that this decision relates to their own situation and does not mean that similar decisions will

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be taken in respect of such financial instruments issued by other European banks subject to orderly resolution plans under the supervision of the Commission.

Risk-weighted assets

At the end of 2017, risk-weighted assets stood at EUR 33.2 billion, of which EUR 31.2 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 43.2 billion, of which EUR 40.8 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.

RISK-WEIGHTED ASSETS (in EUR million)	31/12/2016	31/12/2017
Credit risk-weighted assets	40,838	31,197
Market risk-weighted assets	1,367	980
Operational risk-weighted risks	1,000	1,000
TOTAL	**43,206**	**33,177**

Solvency ratios

Dexia Crédit Local's Common Equity Tier 1 ratio was 16.1% as at 31 December 2017, against 13.1% at the end of 2016. The Total Capital ratio was 17.0%, against 13.4% 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).

SOLVENCY RATIOS	31/12/2016	31/12/2017
Common Equity Tier 1 ratio	13.1%	16.1%
Total Capital Ratio	13.4%	17.0%

Liquidity management

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 Crédit Local 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 Dexia Crédit Local 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 Crédit Local to its derivatives counterparties (EUR 26.5 billion as at 31 December 2017) and the reduction of the asset portfolio.

Dexia Crédit Local 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, Dexia Crédit Local 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, Dexia Crédit Local 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, Dexia Crédit Local had a liquidity reserve of EUR 18.2 billion, of which EUR 3.4 billion in the form of deposits with central banks.

Human resources, environmental and social data

Dexia Crédit Local's sustainable development approach

Dexia Crédit Local subscribes to the sustainable development approach pursued by the Dexia Group.
Since 2001 the Dexia Group has published a sustainable development report devoted to the steps and measures taken in the field of corporate social responsibility (CSR). This report is henceforth published by each of the Group's operational entities. In light of the Group resolution process, Dexia no longer publishes a consolidated CSR report.

The French legal framework relating to CSR reporting

This part of the registration document presents the CSR information pertaining to Dexia Crédit Local as requested by Article L.225-102-1 of the French Commercial Code.

Methodology

As a company the securities of which are admitted for trading on a regulated market, Dexia Crédit Local is required to include in its management report the measures and courses of action taken to take into account the social and environmental consequences of its activities and to meet its social commitments in favour of sustainable development.
The information to be reported covers 43 topics grouped into three categories: information on human resources, environmental data and data on the company's social commitments in favour of sustainable development.
The companies included within the scope of the CSR reporting correspond to those falling within Dexia Crédit Local's financial consolidation scope. It includes Dexia Crediop, Dexia Kommunalbank Deutschland, DCL Sucursal en España, DCL Sucursal em Portugal, Dexia Crédit Local Dublin Branch and Dexia Crédit Local New York Branch.
In order to reflect the situation of the Dexia Group, as the activities of Dexia Crédit Local and its parent company Dexia are considerably interlinked, certain data have been included in the scope of the Group as a whole. The main difference in scope between the Dexia Group and Dexia Crédit Local relates to the parent company of Dexia Crédit Local, Dexia, based in Belgium.

Some information refers to classifications used specifically in France, and their presentation is limited to the scope of the Dexia Crédit Local Economic and Social Unit (ESU).
It should be noted that some topics do not concern or no longer concern Dexia Crédit Local and its subsidiaries or branches due to the Group's resolution, which resulted in a significant reduction in the consolidation scope of the Dexia Crédit Local Group. The following topics are excluded on account of their insignificance or immaterial nature:

- Resources devoted to the prevention of environmental risks and pollution.
- The amount of provisions and guarantees for risks in the field of the environment.
- Measures for preventing, reducing or compensating for discharges into the air, the water and the soil that have a serious impact on the environment.
- The taking into consideration of noise pollution and any other type of pollution specific to an activity.
- Ground use.
- Measures taken to preserve or develop biodiversity.
- The promotion and observance of the stipulations of the fundamental conventions of the International Labour Organisation concerning the eradication of forced labour and the abolition of child labour.
- Other actions in favour of human rights.
- Food waste.

Absenteeism, remuneration, training and data relating to accidents are reported within the scope of the ESU Dexia Crédit Local France including Dexia CLF Banque, this information not being the subject of consolidation at a global level and Dexia Crédit Local being managed in orderly resolution.
Energy consumption is reported for Dexia Crédit Local registered office, Dexia Crediop, Dexia Kommunalbank Deutschland, DCL Sucursal en España, Dexia Crédit Local New York Branch and Dexia Crédit Local Dublin Branch.
Emissions per type of transport are reported according to this same scope.
Dexia Crédit Local has commissioned the firm Deloitte for the validation of the extra-financial data reported below for the year 2017.

1. Social data

Data relating to employment included in this report relate to the Dexia Group as a whole, including Dexia, parent company of Dexia Crédit Local.
Other data presented are specific to Dexia Crédit Local and therefore fall within the scope of Dexia Crédit Local.

1.1. Employment-related Information

Breakdown of members of staff per entity

	2016	2017
ESU Dexia Crédit Local (except for Dexia seconded employees)	639	544
Dexia	69	65
Dexia Crediop	114	102
Dexia Kommunalbank Deutschland	81	77
Dexia Crédit Local, New York Branch	119	111
Other non-European entities	112	95
TOTAL	**1,134**	**994**

(Scope: Dexia Group)

Breakdown of members of staff by geographic area

	2016	2017
France	639	544
Belgium	69	65
Spain and Portugal	34	21
Italy	114	102
Germany	81	77
North America	119	111
Other countries	78	74
TOTAL	**1,134**	**994**

(Scope: Dexia Group)

Breakdown of members of staff by gender

	2016			2017		
(in EUR)	Women	Men	Total	Women	Men	Total
Management Board	2	4	6	2	4	6
Executives	343	440	783	306	384	690
Non-administrative staff members	169	176	345	143	155	298
TOTAL	**514**	**620**	**1,134**	**451**	**543**	**994**

(Scope: Dexia Group)

Agency staff

As at 31 December 2017 the company had one member of agency staff.

(Scope: Dexia Group)

Workforce as at 31 December 2017 and breakdown by gender and socio-professional category

The Dexia Group workforce was 994 persons as at 31 December 2017 (967 full-time equivalents), against 1,134 persons in 2016 (1,102 full-time equivalents).

In the Dexia Group consolidated scope, a total of 117 staff members were hired in 2017 (against 138 in 2016), including 68 indefinite term and 49 definite term.

FTE	2016	2017
Management Board	6	6
Executives	768.25	674.14
Staff members	327.9	286.37
TOTAL	**1,102.15**	**966.51**

(Scope: Dexia Group)

Breakdown of staff members by age and socio-professional category

	<25	25 - 29	30 - 34	35 - 39	40 - 44	45 - 49	50 - 54	55 - 59	60 and +	Overall total
Management Board	0	0	0	0	0	2	2	1	1	**6**
Executives	3	49	110	99	134	98	93	77	27	**690**
Non-administrative staff members	9	7	32	55	58	43	49	27	18	**298**
TOTAL	**12**	**56**	**142**	**154**	**192**	**143**	**144**	**105**	**46**	**994**

(Scope: Dexia Group)

Staff movements

	2016	2017
Permanent contract hiring	68	57
Individual redundancies affecting employees on a permanent contract	11	19
Economic redundancies affecting employees on a permanent contract	11	33
Resignations tendered by employees on a permanent contract	83	67
Shifts from fixed-term to permanent contract	4	6
Fixed-term hiring (including work-study contracts)	49	41
Fixed-term redundancies	0	2
Fixed-term resignations	3	3
End of fixed-term contract (including work-study contracts)	30	39
Permanent contract transferred to Cognizant	0	52
Other	18	23

The 23 other departures correspond to Intra-group transfers / Retirement / Contractual breach / End of trial period / Departures and arrivals linked to expatriation.

(Scope: Dexia Group)

1.2. Reminder of the structural measures put in place and developments in 2017

End 2012 to end 2014: reorganisation of the ESU Dexia Crédit Local, transfer of staff members to SFIL and deployment of the company project

To recall, Dexia presented a plan for the reorganisation of the ESU Dexia Crédit Local – CLF Banque on 28 September 2012 in the context of the restructuring of the Dexia Group and the implementation of a new plan for French public sector financing. This new system was characterised by the sale of Dexia Municipal Agency (DMA) which has become the Caisse Française de Financement Local (CAFFIL) to a new entity, the Société de Financement Local (SFIL), owned by the French State, the Caisse des Dépôts et Consignations (CDC) and la Banque Postale (LBP). SFIL started operating on 1 February 2013. The launch of SFIL and CAFFIL drew on the tools and skills of the Dexia Crédit Local teams. At the end of 2014, some 300 members of staff had joined SFIL.

In the spring of 2013 the change in the Group's mission and size prompted the management to start thinking about new strategic goals, the operating model and organisational simplification within Dexia.

The thought given to these matters and the work carried out by the Group Committee led to the company project which was presented to the staff representative bodies on 4 February 2014. After numerous exchanges, these bodies delivered their opinion on 31 March 2014, thus enabling operational implementation of the plan.

The change brought about by this company project has also been accompanied by the definition of new values (cohesion, adaptability and professionalism) and associated conduct.

2015-2017: launch of outsourcing projects

Within the framework of the orderly resolution plan and to ensure operational continuity, in 2015 the Group began consideration of the opportunity to outsource all or some of the functions of the middle and back office market operations.

In 2016, Dexia broadened the reflections begun in 2015 on the opportunity to outsource some of the bank's market activities to other production functions, more particularly activities in relation to reporting, the handing of operations and IT development and maintenance. This initiative, only relating to activities performed in France and Belgium, would enable Dexia to deal with the issues of its orderly resolution more effectively: the management and decrease of the asset portfolio, control of operating costs and control of risks.

At the end of the phases of negotiations with different partners, an agreement was finally signed with the Cognizant group for the automatic transfer of the aforementioned activities. The effective transfer of staff members of the IT department took place on 1 November 2017. The activities associated with operations will be transferred in the first half of 2018.

Furthermore, an agreement was signed with a service provider (Primexis) in December 2017 with a view to outsourcing the Crédit Bail management activities. This operation planned for 2018 will be result in the cessation or transfer of 6 posts.

1.3. Remuneration and company benefits

Remuneration policy

The scheme in place within the Group provides that the Dexia Remuneration Committee prepares all matters relating to remuneration policy. Its proposals are then submitted to Dexia's Board of Directors, which approves the appropriate measures to be taken. The remuneration policy thus validated is then submitted to the Dexia Crédit Local Board of Directors for approval.

Dexia defines its remuneration policy in observance of the commitments made to the Belgian, French and Luxembourg States and the European Commission in the framework of the Group's orderly resolution plan. In particular Dexia applies the remuneration principles derived in the context of the G20, the national bodies, the CRD IV. The Group ensures that it makes the best use of public funds as regards remuneration.

This policy applies to both fixed (non-performance-related) remuneration and any variable (performance-related) remuneration, the general principles of which apply to all members of staff. These principles include aligning remuneration policies and practices in order to create a balance between fixed and variable remuneration that does not encourage excessive risk-taking and establishing methods for evaluating the relationship between performance and variable remuneration.

In order to comply with rules and recommendations on good governance and sound remuneration practices and to avoid in any way incentivising excessive risk-taking, the Dexia Group has sought to reduce the variable component of remuneration for those of its members of staff who are contractually entitled to variable remuneration. The variable component of remuneration may not exceed 0.3 times an employee's annual fixed remuneration.

At the same time, in 2017, the members of staff in question benefited from additional non-variable remuneration (known as a "salary supplement") so as to increase their non-performance-related remuneration. This recurring supplement is subject to a continued employment requirement under which members of staff must be employed by Dexia Crédit Local on the last day of the quarter to which the salary supplement relates.

Furthermore, specific arrangements apply to a population specifically identified as liable to affect the Dexia Group's risk profile in view of the nature or level of their duties and/or remuneration.

The remuneration policy and its implementation are regularly assessed to identify any provisions that might need to be adjusted, particularly in light of the entry into force of new legislation or regulations.

Remuneration paid to the executive body and to persons whose professional activities have a significant impact on the company's risk profile

The Dexia Group remuneration policy contains specific provisions applicable to a specifically identified population by virtue of their tasks likely to impact the Dexia Group's risk profile.

This relates principally to members of the Management Board as well as staff members whose remuneration is equivalent to or more than the lowest remuneration paid to a member of the Management Board.

The remuneration of Management Board members now consists solely of a part not linked to performance, constituting a whole from which, unless there is a decision to the contrary by the Board of Directors on a proposal from the Remuneration Committee, there shall be deducted any attendance fee paid by a third party company in which a mandate is exercised in the name and on behalf of Dexia.

In accordance with Article 17 of Appendix II to the Law of 25 April 2014 relating to the status and supervision of credit institutions, members of the Management Board of Dexia Crédit Local may not be granted a severance payment of more than 9 months fixed remuneration.
Notwithstanding the above, Dexia Crédit Local may grant a higher severance payment to a member of the Management Board if the person concerned, prior to the grant of the executive mandate, in accordance with the contractual framework in force and on the basis of their accumulated length of service within the Dexia Group, is entitled in such a case to a severance payment of more than the aforementioned payment.
Furthermore, staff members whose professional activities have a significant impact on the company's risk profile having regard to the applicable legal provisions of the Directive CRD IV and the Delegated Regulation (EU) No 604/2014, are entitled in such a case to a severance payment which may not in principle exceed twelve months of remuneration, that amount able however to reach eighteen months in specific circumstances after approval by the ordinary shareholders' meeting.

Annual average remuneration – change – breakdown by gender and socio-professional category

The data presented in the table below pertain to members of staff in service for two consecutive years on a permanent contract. Members of staff who have changed category are compared in the category to which they belong in the second year.

	2016			2017		
(in EUR)	Men	Women	Total	Men	Women	Total
Management Board	-	435,000	435,000	-	435,000	435,000
Executives	69,015	58,134	63,752	72,904	58,319	65,640
Administrative staff members	39,637	39,960	39,903	40,569	41,510	41,339
Non-administrative staff members	-	-	-	-	-	-
AVERAGE	**68,725**	**59,810**	**64,312**	**72,653**	**60,591**	**66,542**

(Scope: ESU Dexia Crédit Local France)

In 2017, the annual payroll was EUR 48.99 million compared with EUR 50.13 million in 2016 (Scope: Dexia Crédit Local France).

Employer's contributions

In 2017, the annual amount of employer's contributions was EUR 28.64 million compared with EUR 29.46 million in 2016 (Scope: Dexia Crédit Local France).

Discretionary profit-sharing and share ownership

Discretionary profit-sharing

In accordance with the agreement dated 13 June 2017, the basis of assessment for calculation of the discretionary profit-sharing in 2016 is based, for this financial year, on the Dexia Group's Excess Capital calculated in terms of "Common Equity Tier 1 weighted according to the evolution of the workforce". The formula also takes account of booster coefficients linked to the achievement of three strategic objectives (the rate of filling time in Clarity, achievement of the objectives set in the budget in terms of deleveraging, control of recurrent costs (excluding operational taxes) within Dexia Crédit Local in Paris).
A condition of three months service must be met in order to benefit from discretionary profit-sharing.
The amount of discretionary profit-sharing paid to each eligible member of staff is proportional to his or her actual hours worked.
In calculating hours worked, part-time members of staff are treated separately from full-time members of staff.
Amounts paid out under the discretionary profit-sharing scheme may be paid directly to beneficiaries and/or invested in the Group Retirement Savings Plan (PERCOI). The employer makes a 100% matching contribution up to a maximum gross amount of EUR 1,000 for all amounts invested in one or more of the funds offered by the PERCOI.

The following amounts of discretionary profit-sharing were paid in respect of the past three years (gross amounts excluding matching contributions):
- 2015 financial year: the sum allocated was EUR 1,079,134 (paid in 2016);
- 2016 financial year: the sum allocated was EUR 1,290,925 (paid in 2017);
- 2017 financial year: the sum set aside was EUR 1,250,000 (paid in 2018).

French compulsory profit-sharing

In accordance with the agreement of 25 June 2013, entered into for an indefinite period with effect from the year beginning 1 January 2013, the amount set aside for the special reserve for French compulsory profit-sharing (RSP) is calculated using the legal formula.
Eligibility for French compulsory profit-sharing is subject to the same length of service requirement as discretionary profit-sharing.
The amount due is proportional to the employee's annual remuneration, capped at four times the social security ceiling. Moreover, the total amount paid to an employee within a single year may not exceed three quarters of that same ceiling.
Amounts paid out under the French compulsory profit-sharing scheme may be paid directly to beneficiaries and/or invested in the PERCOI and/or deposited in the restricted current account. The employer makes a 100% matching contribution up to a maximum gross amount of EUR 1,000 for all amounts invested in one or more of the funds offered by the PERCOI.
Considering the Dexia Crédit Local group's situation, no French compulsory profit-sharing was paid in 2015, 2016 and 2017.

Employee share ownership plan

Members of staff of Dexia Crédit Local were eligible to participate in the employee share ownership plans (ESOP) established for the entire Dexia Group until 2008. However, no new ESOP has been put in place since 2008.

Shares in mutual funds or directly held by members of staff as part of the Group employee share ownership plans are those issued by Dexia, the Group's parent company under Belgian law.

1.4. Organisation of working time

Home working

An agreement on home working completing the agreement of 2013 was reached on 6 October 2014. The agreement is intended to provide all company members of staff whose duties enable them, technically and organisationally, to perform their work activities off-site with the opportunity to work remotely. 47 people worked from home as at 31 December 2017.

Part-time members of staff

As at 31 December 2017, within the ESU scope and out of a workforce of 54 part-time members of staff (61 in 2016 and 65 in 2015), 40 worked four-fifths time and were primarily absent on Wednesdays. 15 worked on a part-time parental leave basis as at 31 December 2017.

Overtime

Dexia Crédit Local makes little use of overtime. Across the ESU, a total of 1,115 overtime hours were paid in 2017 (compared with 1,281 hours in 2016), equating to a gross amount of EUR 43,723 (compared with EUR 44,448 in 2016), worked by 133 members of staff.

Absenteeism

Across the ESU, an absenteeism rate of 3.9% was recorded in 2017 (number of days' absence divided by theoretical total number of working days), against 4.7% in 2016. The absenteeism rate takes into account sick leave and maternity and paternity leave.

1.5. Labour relations

Professional relations and staff representation

The group recognises, promotes and respects freedom of association and the right to collective bargaining. Any member of staff may establish or join a trade union organisation of his or her choice. In accordance with the applicable laws and regulations, the Group also recognises and respects the right of its members of staff to be represented by their trade union(s) as established through collective bargaining on labour relations.

Agreements signed within Dexia Crédit Local

In 2017, the following agreements were concluded:

Agreement relating to the generation agreement

This agreement was signed on 27 January 2017. It has a term of 3 years and its object is to facilitate the sustainable insertion of young people in jobs by the access to an indefinite-term contract; to promote the hiring and keeping in jobs of senior employees and to ensure the passing on of knowledge.

Agreement relating to the Advance Management of Jobs and Skills

An agreement concerning Advance Management of Jobs and Skills was signed on 20 March 2017 for a term of 3 years. The present agreements aims to provide professional support to employees for the necessary economic and social changes to the company, and to take account of the requirements, itineraries and professional matters of employees associated with the development of technologies, organisations and work structures.

Agreement on discretionary profit-sharing

As our 3-year agreement dated 5 June 2014 had expired, a new 3-year agreement was signed on 13 June 2017 to adapt the formula for calculation of the discretionary profit-for the years 2018-2019 and 2020, whilst maintaining its random nature.

Agreement relating to the social status of Dexia Crédit Local employees transferred to Cognizant Horizon Financial Services under Article L. 1224-1 of the Employment Code

This agreement was signed on 26 September 2017 by DCL, the unions and the representatives of the company Cognizant Horizon Financial Services for a term of 3 years. It aims to define the social status and employment guarantee applicable to employees who are transferred automatically in application of Article L. 1224-1 of the Employment Code.

Agreement relating to the right to disconnect

An indefinite-term agreement concerning the right to disconnect was signed on 23 October 2017. Its aim is to disseminate good practices in the use of the new IT and communication technologies.

Agreement relating to the terms of deployment of the so-called Rebsamen Law relating to social dialogue and employment

An indefinite-term agreement relating to the deployment of the Rebsamen Law was signed on 23 October 2017. Its object is to depart from the frequency of obligatory negotiations and also to regroup certain consultations submitted to the Works Council.

Consultation of Group staff members

A consultation of Group staff members, led in collaboration with an external institution and conducted on the basis of response anonymity, was performed in 2016. This consultation related to different topics, in order to gain a better awareness of the situation, operational reality and the motivation, concerns and expectations of staff members, against the background of a company managed in orderly resolution and in constant mutation.

This survey was performed with all Group staff members and has a participation rate of 77%. The results and information gained in this study were the object of detailed presentations to staff members in February 2017.

To complete these results, 7 participative workshops were organised in June within Dexia Crédit Local in Paris and Dexia in Brussels. Designed by the project group and an external institution, these workshops relied on an assessment process to identify mobilisation factors within Dexia and to present lines of work with a view to improving Group working conditions.

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The project group put forward proposals to the Management Board in mid-October 2017 which will serve within the framework of reflections to define the Group operating model.

1.6. Health and safety

Health and safety at work policy

Working conditions within the Dexia Group must be such that members of staff are safe and their physical and mental health is protected.
Rules governing health and safety in the workplace are in force within all group entities.
Dexia Crédit Local's French and foreign subsidiaries and branches all comply with the applicable local regulations and apply specific procedures on health and safety in the workplace.
Members of staff are provided with documentation on health and safety in the workplace, which they must sign when they first join the entity. This documentation is also available via local intranets, and is regularly updated.
No health and safety agreement was in force at Dexia Crédit Local in 2017.
In 2017, the Dexia Crédit Local CHSCT met four times in regular meetings and seventeen times in extraordinary meetings.
Wishing to continue the psycho-social risks prevention policy initiated several years ago, management renewed the following psycho-social risk support and prevention mechanisms in 2017:

- Presence of an occupational psychologist,
- Presence of a social worker,
- Yoga classes,
- The system devoted to supporting members of staff leaving the company pursuant to the human resource management agreement dated 6 November 2014 carried out by the firm BPI.

Management also wanted to maintain the training courses on psycho-social risk set up the previous year, in particular:

- Sleep and daily performance,
- Sleep and stress: understanding the interactions,
- Interactive "awareness of psycho-social risks" sessions,
- 3 well-being and quality of life seminars.

Accidents

- Number of accidents at or while travelling to or from the workplace: 2
- Number of days off work as a result of accidents at or while travelling to or from the workplace: 15
- Frequency rate[(1)]: 2.2
- Severity rate[(2)]: 0.02
- Number of occupational illnesses: 0

(Scope: Dexia Crédit Local France)

1.7. Training and skills development

It is important to Dexia to provide all its members of staff with an environment in which each person's skills and knowledge can be developed with a view to contributing to the organisation and to the employability of the individual in question. A wide range of development opportunities and training courses is accessible to all members of staff. This skills management is carried out in close cooperation between the Human Resources department, the heads of activity lines and direct managers. Dexia thus intends to perpetuate each employee's expertise in line with developments in the different job opportunities, by way of a guarantee of his or her performance and employability.
In 2017, and continuing as in previous years, the Human Resources department of Dexia structured its desire for action around six training lines:

- Continuing the detection and prevention of psycho-social risks with a focus on well-being at work,
- Accompanying change within Dexia's specific context,
- Accompanying the developments of activity lines and/or mobility within the context of the GPEC and in relation to needs, by the identification of bridges between activity lines and the implementation of development actions fostering mobility between activity lines and, consequently, employability,
- Increasing managerial and collaborative skills,
- Establishing regulatory mechanisms,
- Supporting Seniors with the aim of maintaining their employment,
- Employability within Dexia's specific context.

From these lines comes a catalogue of training available in a specific tool. This tool enables each member of staff to manage and monitor in real time their actions and requests for training.
In 2017, 80 collective training sessions were run by recognised training institutions and organised in the premises of Dexia Crédit Local, thus representing 59 different training programmes. These sessions support major company processes and agreements, the implementation of regulatory mechanisms, business training, training in personal development and in management, and training associated with employability.
More particularly, note should be taken of certain tailored training actions in 2017: accompaniment of change within the context of the Horizon project, language training in English and Spanish, within the context of the repatriation of certain activities and even training actions to support regulatory developments, particularly MiFID, CRD IV and IFRS 9.
In addition to the collective training sessions, there were other training or information actions dispensed internally by colleagues and also specific training taken up individually with external training institutions.
In 2017, the number of hours of training (all forms combined, i.e. eligible and non-eligible, catalogue and external training) amounted to more than 11,300 for Dexia Crédit Local.

Development of talent

It is thanks to the contribution made by its staff that Dexia is able to meet its commitments to its shareholders and guarantors. This contribution is monitored and assessed by the managers during individual interviews with their members of staff.
These interviews are formalised and recorded in the "Taleo Performance" tool, together with the definition of the targets for each member of staff; targets associated with the job description and behavioural targets linked to the Dexia values. This results in a strengthening of the individual monitoring of each member of staff.

(1) Number of accidents with days off work x 1,000,000/Number of actual work hours.
(2) Number of days lost x 1,000/Number of hours actually worked.

Accompanying professional development

Moreover, in the context of the French reform of vocational training, each member of staff is invited on a biannual basis to a professional interview. The purpose of this individual interview is, in complete confidentiality, to go over the prospects for his or her professional development with the member of staff, by taking stock of his or her professional career path, the development possibilities open to him or her and the associated training resources. It also affords the chance for different aspects of working life to be tackled: job content, supervision, remuneration, balance between private life and work, and professional career plan.

Careers Committee

The introduction of this committee was decided on at the beginning of 2014 as part of the company project and the HR action plan presented on that occasion and a major line of which relates to the development of skills and the employability of staff members.
This committee meets once a quarter and has the objective of promoting recourse to internal talents and thus to encourage the mobility of staff members, as a priority to seeking candidates externally. It studies all internal mobility requests made by any staff member or manager (change of activity line, activity line and expatriation). It may also propose mobility options not requested in order to poster the maintenance of skills within the Group.
The committee meets at the same time as the members of the Management Board representing each of the activity lines and Human Resources representatives (HRD, Business Partners).

1.8. Equality of treatment

Agreement on professional gender equality

This agreement aims at intensifying the company's policy in this field. This intention is reflected in the adoption of specific measures in the following areas:
• An agreement entered into on 15 June 2015 for a term of three years reflects the company's commitment to improving its professional gender equality policy, in place for the past few years. This intention is reflected in the adoption of specific actions in the areas of communication, recruitment, professional training, management of careers, job moves and promotions, work/life balance and remuneration. In this regard, a specific envelope of EUR 50,000 was allocated to the removal of any unjustified differences between the remuneration of men and that of women;
• Indicators have been put in place to monitor this policy on an annual basis;
• All of Dexia Crédit Local's foreign subsidiaries are committed to promoting gender equality.

Employment and integration of people with disabilities

As at 31 December 2017, 11 members of staff with disabilities worked for Dexia Crédit Local in France.

Combating other forms of discrimination

Dexia Crédit Local's French and foreign subsidiaries comply with all locally applicable measures to combat discrimination.

Dexia Crédit Local promotes and complies with the requirements of the fundamental conventions of the International Labour Organisation regarding freedom of association, the right to collective bargaining and the elimination of discrimination in the workplace.

2. Environmental data

The environmental data presented in this report relate to the consolidated scope of Dexia Crédit Local. They nonetheless include the figures of Dexia, the parent company of Dexia Crédit Local, in view of their integrated governance. At a Group level, the impact of Dexia on CO_2 emissions remains limited.

Key information: energy consumption and staff travel

As part of their policy of reducing direct environmental impacts, Dexia Crédit Local and its French and foreign subsidiaries have a primary objective of reducing greenhouse gas emissions linked to energy consumption associated with their buildings and staff business travel. The bank pursues a proactive policy of reducing waste and responsibly using consumables.

2.1. Waste management and responsible management of consumables

Dexia Crédit Local's French and foreign subsidiaries have all put in place systems to sort, collect and recycle paper and internal waste (toners, electrical waste, obsolete equipment, etc.). All printers are configured by default to print double-sided in black and white, and all offices have individual selective recycling bins.
As part of its policy of responsible purchasing and reducing paper consumption, Dexia Crédit Local has implemented a range of actions concerning the types of paper used, such as decreasing the weight of paper and using only recycled, bleach-free virgin, PEFC-certified paper.
The company's United States branch sorts its waste both within its offices and at basement level to facilitate effective waste collection.
Dexia Kommunalbank Deutschland and its members of staff are ranging themselves behind the environmental protection approach. In this respect, Dexia Kommunalbank Deutschland uses recycled paper and has commissioned a waste management company presenting an environmental protection charter.

2.2. Sustainable use of resources

Energy consumption

In order to limit its carbon footprint, Dexia constantly seeks to improve the energy efficiency of its premises. The bank maintains the proportion of its electricity consumption accounted for by green electricity.
Energy consumption and associated greenhouse gas emissions are monitored at Dexia Crédit Local head office in France and at its subsidiaries. The table shows the energy consumption for 2017 for the Dexia Crédit Local head office, Dexia Crediop, Dexia Kommunalbank Deutschland, DCL Sucursal en España, Dexia Crédit Local Dublin Branch and Dexia Crédit Local New York Branch. Consumption by Dexia, the parent company of Dexia Crédit Local based in Brussels is also included in this table.

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2017	Energy consumption (MWh)	Greenhouse gas emissions (tCO_2e)
TOTAL	**8,679**	**1,849**

The reduction of energy consumption is explained in part by the disposal of the CBX Tower in La Défense. Following that disposal, the consumption of electricity communicated by the owner of the tower only relates to the floors occupied by Dexia Crédit Local, whilst the entirety of the building's consumption was initially booked. Heat and cooling consumption cannot be segmented by the current owner of the tower, so it relates to the building as a whole and includes consumption by other users of the CBX Tower. Dexia Crédit Local occupies 13 floors out of 31 in all.

Local initiatives have been put in place to improve the energy efficiency of buildings:

- In France, Dexia Crédit Local has been using 100% green electricity to power its main buildings since 1 January 2008.
- Dexia Crédit Local New York's maintenance staff have been made aware of the Energy Star programme launched by the government and intended to promote energy savings in the United States. Low energy bulbs are used to light buildings, all products used are environmentally friendly and air conditioning units are inspected and cleaned every month.
- In Italy, Dexia Crediop uses hydroelectric power for virtually all of its energy needs.

Water consumption

Water consumption in the buildings of the Dexia Crédit Local head office was 13,677 m³ in 2017. This relates to the entire CBX Tower in La Défense, and not the consumption attributable to Dexia Crédit Local, as the owner of the tower is not in a position to detail consumption by occupant. Dexia Crédit Local occupies 13 floors out of 31 in all.

2.3. Contribution to combating global warming

For several years, Dexia has been working to reduce its greenhouse gas emissions associated with staff business travel, focusing on two areas: reducing travel and minimising the impact of travel by encouraging the use of less polluting modes of transport.

The table below shows travel by train and aeroplane in 2017, as well as the associated greenhouse gas emissions, for Dexia Crédit Local (in France), Dexia Crediop, Dexia Kommunalbank Deutschland, DCL Sucursal en España, Dexia Crédit Local Dublin Branch and Dexia Crédit Local New York Branch. Travel by staff members of Dexia, parent company of Dexia Crédit Local based in Brussels, is also included in this table.

Greenhouse gas emissions by type of transport

2017	Km travelled	Greenhouse gas emissions (tCo_2e)
Air	1,474,626	144
Train	1,032,894	18
TOTAL	**2,507,520**	**162**

Analysis of items responsible for greenhouse gas emissions in scope 3 shows the following items to be the main sources for the Group: business travel, the impact of energy consumption by the provided in charge of managing the IT servers and emissions generated by projects financed by the Group. Within the framework of its resolution, Dexia is not in a position to quantify emissions generated by the projects financed.

Commuting

In France, Dexia Crédit Local is demonstrating its commitment in the area of staff travel by paying 60% of the cost of public transport passes for members of staff working at La Défense and 50% for those working outside the capital region.

In Ireland, in accordance with the provisions of the government's "Bike to Work" scheme, Dexia Crédit Local Dublin encourages members of staff to cycle to work.

Dexia Crediop has paid a portion of commuting costs since 2007. Other concrete steps have been taken, such as the creation of a cycle parking area at head office and involvement in the European Mobility Week.

Optimisation of business travel

In order to reduce distances travelled, members of staff are encouraged to make use of video and telephone conferencing. Five videoconferencing units (including one mobile unit) have been installed in Dexia Crédit Local's building at La Défense, as well as in the Group's other entities.

Using an external provider for the management of IT servers

The Group uses an external provider for the management of its IT servers. The consumption of electricity attributable to this service, transmitted by the provider, is 478 MWh, or greenhouse gas emissions of 121 tCO_2e.

Data relating to social commitments in favour of sustainable development

3.1. Territorial, economic and social impact of the activity

Within the context of the company's transformation plan and its second employment protection plan, Dexia Crédit Local has an obligation of revitalisation towards the region where its registered office is established (Les Hauts-de-Seine). A new system was initiated in 2015 aimed at contributing to job protection or job creation in the département of Les Hauts-de-Seine over a period of three years. The new agreement signed on 12 February 2015 aimed to create 121 jobs in the local area (accompaniment of 20 SME). Considering the fact that Dexia Crédit Local is historically rooted in the field of local financing and in consideration of its commitment to sustainable development, this system targeted some twenty SMEs playing a role in such areas as transport, services to population groups, and energy savings and so on. The revitalisation activity carried out by Dexia Crédit Local is performed through the financing of external participants, such as consultancy firms, which bring in their expertise to the supported companies. At the end of December 2017, Dexia Crédit Local had already fulfilled almost its entire commitment (accompanying 19 SME).

Moreover, within the context of its orderly resolution plan, Dexia Crédit Local has pursued a process of desensitisation of the sensitive structured loans granted to local authorities and to public-sector players. The progress that has been made in this process is detailed in the "Risk Management" chapter of this registration document.

3.2. Dialogue with stakeholders

Dexia Crédit Local communicates on a regular basis with the banking supervisors, the different parties actively involved in the Group's resolution, and with the local authorities (see the chapters "Highlights", "Risk Management" and "Information on internal and external control").

3.3. Partnership and sponsorship activities

Dexia Crédit Local's commitment to society has been reflected in policies and actions to benefit local actors in the different countries in which the company has a direct or indirect presence. Various permanent or ad hoc initiatives are organised within the Group.

"Caps of Hope", a collection in support of people with disabilities

In 2012, Dexia Crédit Local decided to organise a solidarity-driven collection of bottle caps in the Dexia Tower at La Défense. This collection is intended for associations that finance equipment for sports adapted to disabled persons, such as for instance "Les Clayes Handisport", an association that strives to bring these people closer to clubs for able-bodied sportsmen so as to encourage their integration.
The items collected are bottle caps in hard plastic (polyethylene (PE) or polypropylene (PP)) that come from foodstuffs or household products. During 2017, 90 kilograms of caps were collected. The campaign is being continued in 2018.

"Bright Future" mentoring programme

Dexia has responded to a call from the association Be.Face, a network of companies acting in real terms against exclusion in Belgium. Its aim, via its "Bright Future" programme, is to facilitate the professional integration of vulnerable students and to support them in their professional careers through mentoring by confirmed professionals.
Launched in 2015, this commitment continued in 2016 and 2017. It is founded on voluntary and personal involvement.

Collection of spectacles in favour of the OLSF association

Dexia Crédit Local's Works Council organises the collection of new or used spectacles in favour of the OLSF association, the aim of which is to combat sight impairments throughout the world.

3.4. Consideration given to social and environmental issues in purchasing policy

In France, Dexia Crédit Local has been using green electricity exclusively to supply its main buildings with power since 1 January 2008.
In the United States Dexia Crédit Local New York uses a diesel fuel with a low sulphur content, making it less polluting, for its building's generator.
In Italy Dexia Crediop has recourse to hydroelectricity for almost all its energy requirements.

3.5. Fair practices

Dexia is committed to running its business professionally and responsibly as regards all its products and services and in its relations with clients, other players in the financial sector, the authorities and all internal and external partners.

Any business activity gives rise to compliance risk. Failure to understand or manage this risk properly could lead to financial or commercial losses and tarnish Dexia's reputation. It could also result in administrative, legal or criminal penalties.
The purpose of Dexia's integrity policy is:
- To promote open, honest and ethical behaviour;
- To ensure compliance with legislation, regulations and other professional standards, as well as with Dexia's codes of ethics, codes of conduct and other Group policies, so as to promote and protect Dexia's reputation and that of its products, services and businesses.

The Compliance Charter sets out the Compliance function's role and remit and the governance principles underpinning Dexia's approach in this area.
These principles are reflected in policies and procedures implemented by all Group entities including Dexia Crédit Local and its subsidiaries and branches.

Preventing corruption

Dexia is committed to conducting its activities in a healthy and integrated environment, in total compliance with all the legal and regulatory provisions in force. Within that framework Dexia will take all measures to prevent corruption in all of its activities and throughout the Group.
The Dexia Group has established rules applicable to all Group members of staff, as well as all those working for the Group and those acting in its name, which aim to prevent corruption of a private nature, and to observe the zero tolerance policy with regard to corruption. These are included in a code of conduct which describes the various forms of prohibited behaviour, the integrity policy, the Dexia Group Ethics and Compliance Code and the policy on gifts, favours and invitations, but also the Dexia Group's Code of Professional Ethics for purchasers and suppliers, the principles of governance of the ethics code within the framework of business relations with the suppliers, the outsourcing policy, the Group policy on managing conflicts of interests and the Dexia internal whistleblowing procedure.
As part of its efforts to prevent corruption of a political nature, Dexia has adopted a "Politically Exposed Persons" (PEP) policy. In particular, this policy is aimed at safeguarding against the risk of money laundering based on corrupt activities. The Group's "country policy" also incorporates corruption risk as a critical factor in the country risk classification. A bi-annual review is performed by the Compliance function.
Other specific policies are also designed to limit risk in this area – namely the whistleblowing policy (strengthened with the support of the Sapin 2 Law), principles on the prevention of money laundering and terrorist financing (strengthened under the 4th European Directive on money laundering), the policy on conflicts of interest, Dexia's policy guaranteeing the independence of its statutory auditors and the policy on the prevention of market abuse.

Preventing money laundering and terrorism financing

Dexia places the highest priority on effectively managing risk in relation to money laundering and terrorist financing and fully complying with associated domestic and international requirements.
In order to ensure a harmonised and consistent approach across the Group's various entities, Dexia has defined a series of broad policies (country policy, politically exposed persons, OFAC policy, policies for entering into business relations with clients or financial counterparties, etc.), based on which

Group entities have adopted procedures and instructions detailing applicable requirements and formalities in respect of the following:
• Knowing and identifying clients, representatives, agents and beneficial owners;
• Conducting checks against official lists of criminals, terrorists, proponents of nuclear proliferation, etc., issued by domestic and international authorities;
• Monitoring account and business relationships throughout the relationship;
• Monitoring transactions and detecting suspicious transactions;
• Cooperating with regulatory and judicial authorities in the event of suspected money laundering or terrorist financing, in accordance with applicable requirements;
• Training staff members on the risks of money laundering.

Market abuse and personal transactions

Dexia has put in place measures aimed at managing the risk of market abuse, i.e. insider trading and price manipulation in connection with financial instruments issued by Dexia or any other issuer admitted to trading on a regulated market, a multilateral trading system or an organised trading system, or the object of an application for admittance. These measures are reflected in several policies complying with the framework of the MAD (Market Abuse Directive) regulations:
• A general policy aimed at preventing market abuse in relation to such financial instruments;
• A policy defining the obligations of people with managerial responsibilities;
• A policy defining the formalities applicable to market surveys;
• A policy relating to personal transactions by persons concerned.
There are also measures in relation to confidentiality, the establishment of lists of insiders and Chinese walls.

Integrity and preventing conflicts of interest

In accordance with the MiFID II Directive, Dexia has put in place standards designed to guarantee a high level of investor protection, including, for example, its conflicts of interest policy.
Dexia is committed to complying with the operational rules of the markets in which it operates and with the internal rules and procedures of these markets. Dexia will not take part in any transactions which could contravene any laws or regulations.
Dexia is committed to ensuring that market traders act professionally and with integrity towards intermediaries and counterparties. It has developed policies and procedures to enable them to provide products and services in line with their categories and investment goals.
Internal rules have been adopted to govern external duties that might be performed by members of staff, in accordance with local rules and general principles on the prevention of conflicts of interest.
Dexia has a policy aimed at guaranteeing the independence of its statutory auditors, updated following the regulatory reform in 2016.
One of the requirements of this policy is that, before any assignment not directly related to statutory audit work is assigned to the statutory auditors, checks should be undertaken to ensure that the assignment in question is not likely to affect the auditors' independence.

Whistleblowing

Dexia has put in place a whistleblowing system aimed at reducing the risk of financial losses, penalties or reputational damage as a result of failing to comply with legal and regulatory requirements.
This system enables Dexia members of staff to report any violation, abuse or problem that could be seriously damaging to Dexia.
This system has been strengthened under the Sapin 2 Law.

Data protection and professional secrecy

Discretion and compliance with professional secrecy requirements are essential in protecting Dexia's reputation; in this regard, procedures have been put in place throughout the Dexia Group in accordance with domestic regulations. In addition, more staff members receive regular training in relation to fulfilling those obligations of discretion and respect for the separation of functions, in particular in relation to reminders of the good practices to be adopted.

Dexia Group Compliance Charter concerning its relations with suppliers

Article 2.1 of the Dexia Group's Compliance Charter in respect of supplier relations covers issues relating to human resources, environmental and social data.
"Depending on the existing environment, legislation and the methods used to produce goods and services in each country, Dexia intends to select those suppliers who apply best practice and the most exemplary principles of social and environmental responsibility by:
• Not using, or allowing their own suppliers or subcontractors to use child labour (children under 15) or forced labour;
• Complying with all legislation and regulations aimed at providing staff with a safe and healthy working environment and working conditions in line with individual and collective freedoms, particularly as regards working hours, remuneration, training, trade union representation, and health and safety;
• Complying with all legislation and regulations on discrimination (including in particular discrimination on the basis of gender, ethnical origin, religion or political affiliation) in the recruitment and management of staff members;
• Not practising or supporting any form of psychological or physical coercion or hurtful or humiliating verbal abuse;
• Complying with the provisions of employment law both when recruiting staff members and throughout the term of their employment contracts;
• Complying with domestic legislation on environmental protection and promoting environmental best practice, particularly as regards designing innovative products, improving product life cycles, recycling and recovering waste.
• Protecting the confidentiality of personal data;
• Taking all measures designed to prevent corruption practices."
Copies of the Compliance Charter are always provided when issuing requests for proposals and one of the criteria for selecting suppliers is compliance with social and environmental obligations.
In addition, Dexia members of staff responsible for purchasing act within the framework of a specific code of conduct which sets the rules of behaviour for relationships with suppliers and subcontractors.

Report by one of the Statutory Auditors, appointed as an independent third party, on the consolidated human resources, environmental and social information included in the management report

For the year ended 31 December 2017

To the General meeting of Dexia Credit Local,
In our capacity as Statutory Auditors of Dexia Credit Local, ("the Company") appointed as independent third party and certified by COFRAC under number(s) 3-1048[1], we hereby report to you on the consolidated human resources, environmental and social information for the year ended December 31st, 2017 included in the management report (hereinafter named "CSR Information"), pursuant to article L.225-102-1 of the French Commercial Code (Code de commerce).

Company's responsability

The Board of Directors is responsible for preparing a company's management report including the CSR Information required by article R.225-105-1 of the French Commercial Code in accordance with the protocol used by the Company (hereinafter the "Guidelines"), summarized in the management report.

Independence and quality control

Our independence is defined by regulatory texts, the French Code of ethics *(Code de déontologie)* of our profession and the requirements of article L.822-11 of the French Commercial Code. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements, French professional standards and applicable legal and regulatory requirements.

Statutory Auditors' responsability

On the basis of our work, our responsibility is to:
attest that the required CSR Information is included in the management report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with third paragraph of article R.225-105 of the French Commercial Code (Attestation regarding the completeness of CSR Information) ;

express a limited assurance conclusion that the CSR Information taken as a whole is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information).
However, we express no opinion on the compliance with the other legal provisions applicable, particularly those provided by law no. 2016-1691 of December 9th, 2016, known as Sapin II (corruption issues).

Our work involved three persons and was conducted in February and March 2018 during a three-week period. We were assisted in our work by our sustainability experts.

We performed our work in accordance with the order dated May 31st, 2013 defining the conditions under which the independent third party performs its engagement and the professional guidance issued by the French Institute of statutory auditors *(Compagnie nationale des commissaires aux comptes)* relating to this engagement and with ISAE 3000[2] concerning our conclusion on the fairness of the CSR Information.

Attestation regarding the completeness of CSR Information

Nature and scope of our work

On the basis of interviews with individuals in charge of the relevant departments, we obtained an understanding of the Company's sustainability strategy regarding human ressources and environmental impacts of tis activities and its social commitments and, where applicable, any actions or programs arising from them.
We compared the CSR information presented in the management report with the list provided in article R.225-105-1 of the French Commercial Code.
For any consolidated information that is not disclosed, we verified that explanations were provided in accordance with article R.225-105, paragraph 3 of the French Commercial Code.
We verified that the CSR Information covers the scope of consolidation, i.e., the Company, its subsidiaries as defined

(1) whose scope is available at www.cofrac.fr

(2) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information

by article L.233-1 and the controlled entities as defined by article L.233-3 of the French Commercial Code within the limitations set out in the methodological note, presented in the paragraph "Methodology" of the "Social, Environmental and societal information" section of the management report.

Conclusion

Based on the work performed and given the limitations mentioned above, we attest that the required CSR Information has been disclosed in the management report.

Conclusion on the fairness of CSR Information

Nature and scope of work

We conducted seven interviews with the persons responsible for preparing the CSR information in the departments in charge of collecting the information and, where appropriate, responsible for internal control and risk management procedures, in order to:
assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, and taking into account industry best practices where appropriate;
verifiy the implementation of data-collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and procedures based on the nature and importance of the CSR Information with respect to the characteristics of the Company, the human resources and environmental challenges of its activities, its sustainability strategy and industry best practices. Regarding the CSR Information that we considered the most important[1]:

- at parent entity level, we referred to documentary sources and conducted interviews to corroborate the qualitative information (organization, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the consolidation of the data. We also verified that the information was consistent and in agreement with the other information in the management report;
- at the level of a representative sample of entities by us[2] on the basis of their activity, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify that procedures are properly applied, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents.

The selected sample includes the whole environmental and societal indicators disclosed.
For the remaining consolidated CSR Information, we assessed its consistency based on our understanding of the company.
We also assessed the relevance of explanations provided for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes we have used, based on our professional judgment, are sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures. Due to the use of sampling techniques and other limitations inherent to information and internal control systems, the risk of not detecting a material misstatement in the CSR information cannot be eliminated.

Conclusion

Based on the work performed, no material misstatement has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Neuilly-sur-Seine, March, 29, 2018

One of the Statutory Auditors

Deloitte & Associés

Jean-Vincent COUSTEL
Partner

(1) Quantitative social Information: Total staff and breakdown of members of staff by geographic area, gender and socio-professional category; Staff movements.
Environmental quantitative Information: Total energy consumption; greenhouse gas emissions associated with energy consumption; Greenhouse Gas Emissions by type of transport.
Environmental and societal qualitative Information : Launching of outsourcing project; integrity policy
(2) UES Dexia Credit Local France

Information on internal and external control

Internal control

Organisation of the internal control

Nature and objectives of internal control

As for all credit institutions, the Dexia Group[1] is subject to the Single Supervisory Mechanism and the Single Resolution Mechanism put in place by the European authorities. The objectives and organisation of its internal control fall within the framework defined for these supervisory and resolution mechanisms as well as by the legislation and regulations of the countries in which Dexia operates.

The Dexia Group's internal control charter defines the fundamental principles governing the internal control function. Approved by the Board of Directors on 19 November 2015, this charter applies to all Group entities.

The control function contributes to:

• The effectiveness of the risk management process: the aim of the internal control function is to guarantee that the bank's activities are conducted with a degree of control over risks compatible with the level of risks accepted by the Board of Directors;
• Compliance with laws and regulations: internal control contributes to guaranteeing that Dexia and its subsidiaries fulfil their legal and regulatory obligations;
• The effectiveness and security of operational processes: internal control contributes to the proper functioning of operational processes and the effectiveness of operations, the integrity of information and compliance with decisions taken;
• The accuracy of accounting and financial information: internal control contributes to giving an assurance of the pertinence, accuracy, regularity, exhaustiveness and transparency of the production of accounting and financial information.

General architecture of the function

The general architecture of the internal control function of the Dexia Group is based on organisation at three levels:
• **The first level of control** is performed by each employee and their superiors, in accordance with responsibilities that have been expressly delegated to them, procedures applicable to the activity they perform, and with instructions provided to them;
• **The second level of control** is performed by specialised functions, independent from the activities controlled or members of staff who are independent from the activities controlled;
• **The third level of control** is performed by the Dexia Group Audit function, the task of which is, through periodic checks, to ensure that there is efficient and effective performance of both of the levels of control defined above, within the holding company and all of its subsidiaries and branches.

The main internal control participants

The participants concerned by internal control are as follows:
• **Staff members and their direct superiors** are responsible for defining and implementing first level controls, as an integral part of their activity, in accordance with regulations. The heads of each activity line are responsible for defining and updating a body of procedures adapted to the complexity and risks associated with their activity.
• **Permanent control** has the role of challenging key first level controls, implementing second level controls and collecting the results of key second level controls implemented by other specialised functions (for instance: Accounting Control, Validation, Credit Model Control).
• **Compliance** ensures that all the regulations in the fields entrusted to it by the compliance charter adopted by the Board of Directors are applied on a permanent basis and do not, through their absence or non-application, result in the company running risks, either of administrative, disciplinary, financial or even reputational penalty.
• **Internal Audit** considers all the objectives of the organisation, analyses the risks liable to compromise the achievement of those objectives and periodically assesses the robustness of the controls put in place to manage such risks.

The independence of internal control functions

Internal control functions are strictly independent of the functions they control and daily activity management:
• The General Auditor and the Chief Compliance Officer, Head of Permanent Control report on the results of their control activities directly to the Management Board and to the Board of Directors;
• The General Auditor and the Chief Compliance Officer, Head of Permanent Control have direct access to the Chairman of the Board of Directors, to the Chairman of the Audit Committee and to the Chairman of the Risk Committee;
• A specialised committee assists the Board of Directors with regard to the remuneration of the General Auditor and the Chief Compliance Officer, Head of Permanent Control. Their remuneration is determined independently of the remuneration of the functions controlled;

(1)For the Dexia Group as for the Dexia Crédit Local Group, the notion of group used in the present report covers the parent company and the consolidated companies.

• The Board of Directors is kept informed of appointments of the General Auditor and the Chief Compliance Officer, Head of Permanent Control. The Board of Directors must give his express consent in the case where the Management Board decides to replace them.

Operational principles

Internal control activities are guided by the following principles:
• Risk-based approach: internal control within Dexia adopts a risk-based approach. The internal control functions determine their control programmes and their activities on the basis of a prior risk assessment.
• Coordination: for the purposes of coordination and information sharing, the internal control functions have established a transversal Internal Control Committee in which internal Audit, the Compliance and Permanent Control department and the Risk activity line are represented. Despite their distinct role, the control functions work in a coordinated manner in order to avoid redundancies of tasks and the duplication of action plans;
• Common methodological references and tools: the control functions share common references and nomenclatures (for instance a common risk reference) and common methodological tools, in order to facilitate the production of reports to the bank's governance bodies.

The internal control participants

Internal Audit

Role

Internal audit is an independent and objective activity giving the Board of Directors and the Management Board of the Dexia Group assurances concerning the quality and effectiveness of its internal control system, risk management and governance systems and procedures, contributing towards the protection of the Group's interests and reputation.
It considers all the objectives of the organisation, analyses the risks associated with those objectives and periodically assesses the robustness of the controls in place to manage those risks. Internal audit then provides management with an assessment of the residual risks so that management can validate the appropriateness for the global risk profile desired for the Dexia Group, and proposes actions to increase the effectiveness of controls.

Moreover, internal audit assists the Boards of Directors of the Group and its entities in their supervisory role through its participation on the Audit Committees.

In line with international standards, a Dexia Group Audit Charter sets out the fundamental principles governing the internal audit function and describing its objectives, role and responsibilities, as well as how it operates. This charter was updated in June 2014 to take account of the Group's new configuration.

So that each Dexia Group employee can appreciate the importance of the internal audit function's role within the Dexia Group's internal control and management support systems, the audit charter has been published on the Dexia website *(www.dexia.com)*.

Main guidelines

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

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

At an individual level, each auditor must show the greatest professionalism and have ongoing training to ensure their mastery of the rapid changes to audit, banking, financial and IT techniques and those for combating fraud. Training needs are assessed in periodic and annual assessments. Statutory Auditors are required to comply with the Dexia Group's rules of professional ethics, as well as those specific to their profession. This means observance of the following fundamental principles:
• Integrity: the integrity of internal auditors is the basis for confidence in and the credibility of their judgement;
• Objectivity: auditors must show the highest degree of professional objectivity in collecting, assessing and communicating information relating to the activity or process examined. Internal auditors fairly assess all the relevant elements and are not influenced in their judgement by their own interests or those of others;
• Confidentiality: internal auditors have a duty of professional secrecy; they respect the value and ownership of the information they receive and only disclose this information with the required authorisations, unless a legal or professional obligation forces them to do so;
• Competence: internal auditors use and apply the knowledge, know-how and experience required for the performance of their tasks.

Scope for intervention

All the Dexia Group's activities, processes, systems and entities are within the scope of action for internal audit, without any reservations or exceptions. The scope includes all processes, whether operational, support, management,

corporate governance and risk management and control processes. Outsourced essential activities also fall within the audit scope, given that operational services are responsible for organising the conditions for the possibility of audits by including audit clauses in service agreements.
Other than exceptions associated in particular with requests from the supervisory authorities, the audit scope does not however cover the activities of companies in which the Dexia Group only holds a minority interest. However, Dexia's representative on the Board of Directors is responsible for learning about the state of the internal control mechanism and, if necessary, alerting the Management Board and the audit department of the entity which holds that interest.

Organisation of the function

Principles

The Dexia Group internal audit function operates as an integrated support line composed of the Audit department of Dexia/Dexia Crédit Local and the Audit departments of subsidiaries and branches.

The activity line is headed by the General Auditor of Dexia (also General Auditor of Dexia Crédit Local), who reports to the Chief Executive Officer of Dexia (also Chief Executive Officer of Dexia Crédit Local). The General Auditor guarantees the appropriate cover of risks throughout the Dexia Group as a whole. He monitors the supervisory bodies of the entities and their subsidiaries/branches, as well as all the tasks performed by the local bank supervisory authorities. The General Auditor periodically reports to the Management Board and the Audit Committee, on the tasks, powers and responsibilities of internal audit, the degree of implementation of the audit plan and the assessment of the internal audit environment.

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

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

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

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

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

Organisation of an Audit function

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

Management of the Audit department

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

The Audit department of Dexia/Dexia Crédit Local is responsible for:
- The Audit strategy and its proper implementation in all Dexia Group audit departments;
- The definition and application of a common methodology for analysing risks, performing tasks and monitoring recommendations made;
- The optimum allocation of competences within the function and determining the level of training required of auditors throughout the Group;
- The coordination and assessment of training programmes;
- The attribution and monitoring of the operating budget of each local audit department.

Relations with the supervisory authorities and statutory auditors

Internal audit maintains regular dialogue with the banking supervisory authorities and statutory auditors on subjects of common interest. These exchanges are aimed at sharing observations and recommendations made by both parties on internal control matters and ensuring a good coordination of the respective interventions. Internal audit also monitors recommendations made by the supervisory authorities and the statutory auditors under the same conditions as for recommendations made by internal audit.

General overview of activity over the year 2017

In 2017, the tasks of Internal Audit related to all the Group's major activity lines: Assets ("Management of Project Finance Portfolio", Funding and Markets ("Management of Derivatives"), Risk ("ICAAP process"), Finance ("Tax activities"), General Secretariat ("Outsourcing policies"), Operations and IT Systems ("Payment systems").

Head office audit services were provided to local audit teams at Dexia New York, Dexia Crediop, Dexia Kommunalbank Deutschland and Dexia Israel, particularly in performing tasks relating to the management compliance (AML Compliance).

The Inspection Unit

Role

The role of Inspection is to contribute, independently and objectively, to controlling fraud risks. It intervenes through awareness, prevention and dissuasion, detection and investigation actions and proposes and monitors corrective measures.

Organisation and governance

Inspection performs its tasks within the Internal Audit department and is responsible for the performance of its tasks in relation to the General Auditor of Dexia/Dexia Crédit Local.

Inspection performs these tasks for Dexia and Dexia Crédit Local, as well as for all the branches, subsidiaries and sub-subsidiaries depending on them, which do not have their own inspection function. The function is performed full-time by an inspector reporting to the head of Internal Audit and Inspection who in turn reports to the Group General Auditor. If necessary, the function is performed working closely with the head of Internal Audit for the entity concerned.

An Inspection Charter sets out the fundamental principles governing the function, describing the objectives, roles, powers, duties and responsibilities, terms of operation and the basic rules governing it, including rules of professional ethics.

General overview of activity over the year 2017

In accordance with the principles set out in the Inspection charter, the tasks performed by Inspection in 2017 related to awareness, prevention and detection of fraud, enquiries in relation to suspicions of fraud, as well as data extraction, and, in support of the Legal department for litigation files.

Inspection also worked on assessing anti-fraud mechanisms (physical security and the management of movable assets) under an audit mission format.

The Compliance function

The compliance function is independent. It carries out its activities without any influence, interference or restrictions likely to affect its independence, its integrity, its impartiality and its objectivity.

The compliance function is an integral part of the internal audit mechanism of credit institutions and investment companies. The Compliance department at Dexia Crédit Local ensures the coherence and effectiveness of managing non-compliance risks.

The role and relevant fields of the Compliance function as well as the governance principles underlying the approach adopted by Dexia and Dexia Crédit Local with regard to compliance are included in the Compliance Charter, which was approved and entered into force in 2009 and was updated in 2014 and 2015.

The Compliance fields are as follows:

- The fight against money laundering and the financing of terrorism including the prevention of tax fraud;
- The fight against corruption (prevention of corruption and prohibited behaviours);
- The control of information relating to the tax situation of clients and counterparties to respond to existing regulations;
- Market abuse and personal transactions;
- Integrity of markets in financial instruments;
- Integrity vis-à-vis clients;
- Data protection and professional secrecy;
- Prevention of conflicts of interest vis-à-vis clients and counterparties;
- External mandates;
- Independence of the statutory auditors;
- Observing the principles stated by remuneration policy and legal requirements with regard to the expertise and professional honour of members of the Management Board, directors, heads of independent audit functions and executives;
- Internal warning system at Dexia and Dexia Crédit Local;
- Other fields indicated by the Management Board and the Board of Directors, considering the level of associated risk. In this regard the Compliance department of the Group and of Dexia Crédit Local guides the permanent control mechanism of the establishments concerned, including their subsidiaries and branches.

Within the framework of the fields of competence listed above, the Compliance function performs the following tasks:

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

Organisation and positioning

The Chief Compliance Officer of the Dexia Group reports to the Chief Executive Officer. An escalation right enables him to include an item on the agenda of the Management Board if circumstances so demand and to report any significant incidents directly to the Chairman of the Board of Directors of Dexia or to the Audit Committee members.

The Permanent Control function has reported to the Compliance department since 2014.

Since 2015 the Compliance Charter has integrated the contributions of the Directive CRD IV regarding provisions relating to the Chief Compliance Officer and enables the fields of competence of the compliance officers of entities if the regulations so require.

The Internal Control Committee, part of Compliance and Permanent Control, has the role:

- Of taking a consolidated view of risks and controls (operational risk, audit, permanent control and compliance);
- Of making recommendations concerning malfunctions of all incidents associated with operational risk.

Several actions were implemented in 2017, on the one hand to ensure the implementation of measures intended to protect information within the context of the various projects for the restructuring of the Group or outsourcing and, on the other hand to strengthen the protection of personal data (particularly for the treatment of data violations) and the protection of clients. Depending on its role, the Compliance department guides or participates in the ensuring compliance with new regulations.

The rules concerning markets in financial instruments were strengthened in compliance with the amended MIFiD 2 regulatory framework applicable since 3 January 2018. Actions were taken to train the staff members concerned in the new regulatory requirements and to commence work on updating internal policies and procedures. That work detailed the new obligations in relation to trading on the platforms authorised for certain categories of financial instruments, post-transaction transparency and the reporting of transactions to the supervisory authorities.

The procedural mechanism dealing with corruption was strengthened in 2017. A code of anti-corruption conduct was introduced and will complete the series of policies and procedures in force.

The anti-money laundering mechanism was strengthened in 2017 with the additions of the 4th European Directive on Money Laundering and Terrorism Financing.

Training sessions were organised in all the entities in the compliance fields, including training on the code of professional ethics, in order to recall the key compliance principles, as well as on prevention, with the fight against money laundering and the financing of terrorism.

Compliance has also supported work by the operating departments in connection with moves to ensure compliance with the EMIR regulations and the Dodd Frank Act (Volcker rule). Concrete actions were gradually put in place to improve supervision of the network of subsidiaries and branches. In particular, updates of compliance policies were deployed in the subsidiaries and branches.

Permanent Control

The Permanent Control mechanism outside Compliance relies firstly on the realisation of controls conceived, realised and formalised under the primary and direct responsibility of the operating units concerned and their superiors (first level permanent control). In other units, it relies on agents exclusively dedicated to control tasks, independently of operating units (second level permanent control).

Since April 2014, the mechanism for guiding permanent control has relied on a strengthened team under the responsibility of the Chief Compliance Officer, Head of Permanent Control. A unit dedicated to Accounting Control is placed at the level of the Finance department. This unit integrates the results of its works in the consolidated permanent control report which is presented quarterly by the Compliance Permanent Control department to the Board of Directors and, half-yearly, to the Risk Committee. In 2017, Accounting control implemented a control plan for recurring works related to the closing of the financial statements.

Permanent Control relies on a control plan the elements of which cover the main processes of the operational and dedicated units at head office, subsidiaries and branches. First level controls to be integrated in this plan are proposed by decentralised correspondents within the operational or dedicated units of the Compliance and Permanent Control department which may, if necessary, play a prescription role. Compliance and Permanent Control department also identifies second level controls which it is responsible for realising.

The review of the control plan is performed in coherence with the results of the risk control self assessments and the events collected by the Operational Risk department, as well as with process mapping, reports of the internal audit, statutory auditors and the supervisors. After review, the plan is validated by the Management Board.

The Compliance and Permanent Control department ensures, at a consolidated level for all subsidiaries and branches, the proper implementation of the permanent control plan, ensuring in a second reading the proper implementation of controls and by making a critical analysis of the results with regard to risks identified. The Compliance and Permanent Control department may ask for any substantiation of malfunctions observed, and ensure the introduction of action plans, if necessary, enabling any such malfunction observed to be remedied.

The permanent control mechanism is coordinated with other internal control actions and uses a tool and risk references and processes common to the entire Group. The Compliance and Permanent Control department assists the dedicated committee of units in charge of validating valuation models and the observance of internal rating systems. An internal control committee at Management Board level enables a consolidated view to be provided with the works of Internal Audit, the Compliance department and the Operational Risk department and IT Systems Security.

Control and monitoring of the internal control system

The Audit Committee and the Board of Directors

The Board of Directors is responsible for defining the bank's general strategy and risk appetite. It is also ultimately responsible for the management of risks and relations with shareholders. As for internal control, this includes:

- Assessing the introduction of independent control functions;

• Monitoring the correct evaluation of the risks run by the bank and the proper balance between the strategy and the human and financial resources allocated to ensuring the control of such risks;
• Examining the policies in place to ensure compliance with laws and regulations, including regularly examining the Compliance Charter, the Internal Audit Charter and the remuneration policy;
• Examining reports from internal control presented at least once per annum by the Internal Auditor (including the internal audit plan) and by the Chief Compliance Officer, Head of Permanent Control (including the results of second level controls).

Specialised committees (the Risk Committee and the Audit Committee), created within Dexia's Board of Directors, advise the Board of Directors on the bank's global strategy and risk appetite. As for internal control, these committees assist the Board of Directors in its task of assessing the bank's level of risk and in the introduction of an appropriate internal control system. They also assist the Board in examining reports from internal control.

During the 2017 fiscal period, the Audit Committee implemented at Dexia level was delegated to assist the Board of Directors in carrying out its oversight of the management of Dexia Crédit Local. The Audit Committee focuses specifically on those procedures covering the preparation of the financial statements and is also responsible for managing relationships with the Statutory Auditors.

In accordance with the recommendations of the AMF, as part of its responsibilities, the Audit Committee:
• Analyses financial information, accounting procedures and compliance with legal, regulatory and statutory requirements;
• Examines, prior to their approval by the board and their publication, the quarterly, half-year and annual financial statements;
• Examines the findings, comments and recommendations of the Statutory Auditors and may suggest any additional assignments it finds appropriate;
• Ensures that appropriate internal controls exist and have been implemented;
• Ensures that all recommendations made by regulatory authorities and the Dexia Crédit Local rules of conduct are taken into account;
• Is notified of the long-term audit plan and the audit plan for the coming year, and of any changes that may be made during the year;
• Ensures the adequacy of the resources at the disposal of the Internal Audit department;
• Is informed of the work performed by the Internal Audit and Bank Inspection departments through internal control reports, audit plan progress reports and recommendation monitoring reports;
• Is consulted on all audit-related regulations in effect within Dexia Crédit Local;
• Reviews the situation as regards compliance, and is consulted on the rules relating to the integrity and professional ethics policy in force, particularly in terms of protecting the image of the bank and the Group;
• Is informed of permanent control work (excluding compliance);
• Makes recommendations concerning the Statutory Auditors proposed for appointment at shareholders' meetings.

The Audit Committee reports on its work and observations to the Board of Directors.

The Chairman of the Board of Directors of Dexia Crédit Local is copied on the Internal Audit department's business review, and has access to all audit reports. He may regularly query Dexia Crédit Local's Chief Executive Officer or Executive Vice-Presidents about internal control issues. Lastly, he has direct access to the General Auditor and may request audit assignments if he feels this is appropriate.

The Management Board

The Management Board is responsible for the operational establishment and maintenance of an appropriate internal control system. It is entirely responsible for providing the resources and skills appropriate to the internal control functions. It sets the deadlines for implementation and allocates the means to internal control actions decided. Finally, it adjusts these requirements in relation to internal and external developments observed.

The Internal Control Committee is the body dedicated to dealing with internal control problems. Its members are the Chief Executive Officer and the Executive Vice-Presidents, the General Auditor and the Chief Compliance Officer, Head of Permanent Control.

Characteristic of internal control within the context of producing accounting and financial information

The financial statements

The Finance activity line has the following five departments, reporting to the Chief Financial Officer: Financial Strategy, Product Control, IT Support, Financial Control and Finance Business Management.

The Financial Control department brings together the Accounting department and the transversal functions of Consolidation, Management Control, Tax, Norms and consolidated regulatory reporting.

The Accounting department sees to the production of basic accounting data and the financial statements of Dexia, Dexia Crédit Local, and those of the subsidiaries which do not have their own Accounting departments.

The Accounting department also has a role of analysing and controlling the accounting data of branches, as part of the process of preparing the statutory accounts. In collaboration with the Consolidation and Management Control department, in particular it checks that the information provided is consistent and complies with Group rules.

More generally, the Accounting department has various means of information to perform its task of monitoring the accounting function in the broad sense. It is associated with committees which may be of interest in its task or the recipient of reports. Through regular contacts with its local correspondents, it ensures the proper dissemination of Group principles and proper interpretation of instructions given. It participates in the development of IT systems, so as to ensure that its specific requirements are taken into account.

As at 1 November 2017, Dexia outsourced its IT and back office activities in Paris and Brussels to the company Cognizant Horizon. Continuity was a key element of the transfer of activities. The members of staff concerned did not move and remained in the same building. They kept their e-mail addresses and the organization hardly evolved. Moreover, more than half of the activities was already performed by consultants.

Dexia Crédit Local statutory financial statements

For the preparation of the statutory financial statements, data is largely automatically posted to Dexia Crédit Local's accounting system by the upstream management systems used to manage transactions with customers and financial market counterparties as well as general operating expenses. When a transaction is recorded in any of these management systems, automated account mappings generate accounting entries automatically. These entries feed into the financial statements using a single accounting system that incorporates two sets of standards (French GAAP and EU IFRS [IFRS as adopted in the European Union]).

The exhaustiveness and accuracy of the source entries are guaranteed by the internal control systems of the financial control departments. The team in charge of enforcing standards and policies validates the automated charts of accounts under both sets of accounting standards, as well as the processing of complex or unusual transactions. The latter are occasionally entered manually, but they are then covered by specific internal control procedures.

First-level controls are performed by accounting teams specialising in each activity line, notably through the analysis of bank reconciliations and technical suspense accounts. Each month, all transactions recorded in the general ledger system are reconciled with those in the management systems, and tests of symmetry are performed on micro-hedged transactions. In order to verify the comparability of interest expense and income from one period to another, these items are measured against average outstanding amounts to calculate more easily comparable average rates. Finally, these departments also draft reports summarising the work performed and identifying any points requiring special attention or procedural improvements to be made in subsequent closings.

Additional checks are also performed by other units of the Accounting department during monthly, quarterly and annual closings. The work done by the local accounting teams is reviewed periodically to ensure that all controls included in a standardised list have been correctly performed. The summary report issued by these accounting teams is also reviewed. The financial statements are reconciled with the management data at least once a quarter, and analytical tests are performed to verify the comparability of periods. Explanations of the main changes must be provided. During the past year, much of staff time was devoted to analysing these reconciliations. The automation of this work has made it possible to focus on the analytical phases, enabling the level of analysis to be maintained and the main changes explained.

The accounting entries generated during this process are subsequently compiled and aggregated using an automated, standardised process, to create the statutory financial statements of Dexia Crédit Local prepared under French GAAP and the company's contribution to the consolidated financial statements prepared under EU IFRS. The same is true of all subsidiaries whose accounting is performed at the Head Office. The Accounting department uses these financial statements, supplemented in some cases by data provided by the management systems, to establish the tables for the notes that form an integral part of the annual financial statements. The Accounting department then performs cross-checks between the summary reports and the notes to the financial statements. Throughout the entire process, reviews and tests of reasonableness and of compliance with the established procedures are conducted in accordance with the reporting authorities that have been established.

The same work is performed in each of the entities that make up the Dexia Crédit Local Group, although the degree of complexity may vary with the size of these entities and the activities in which they engage.

Dexia consolidated financial statements

In order to prepare their contribution to the Dexia Crédit Local consolidated financial statements, the consolidated entities reprocess their statutory financial statements established in line with local standards in order for them to comply with the accounting principles of the Dexia Crédit Local Group (IFRS accounting standards as adopted in the European Union). These principles are compiled in a consolidation manual sent to each Group entity. They are completed, on each accounting date, by operational instruction notes provided to the entities by the head office Consolidation service. These instruction notes present the improvements to be made to processes with a view to observations made over previous periods and detail the developments to be taken into account (systems, new data to be provided and so on) over the period.

The financial statements sent to the Group by the various entities are then consolidated and are subject to certain adjustments. The principal adjustments made by the Consolidation service relate to the elimination of reciprocal accounts and intragroup transactions (such as acquisitions/asset disposals and dividends). They also deal with the treatment of companies held by different Group entities.

When the consolidated financial statements have been finalised, they are submitted for review to the Chief Financial Officer who has them approved by the Management Board. They are then presented to the Audit Committee and signed off by the Board of Directors.

Some of the notes and appendices to the consolidated financial statements are not drawn up directly by the Financial Control department, but come from the following departments, such as Financial Strategy, the Risk department, the General Secretary or Human Resources.

The planning of the provision of this information and the final responsibility for the content of the consolidated financial statements are assumed by the Finance support line.

Publication of the Dexia Crédit Local financial statements

The financial statements are then incorporated into the annual report, which is equivalent to the registration document (document de référence) required by Article 212-13 of the General Regulations of the French Autorité des marchés financiers (AMF).

This accounting and financial information is made public in several ways:

- The financial statements are announced in a financial notice and/or published in BALO, the French official journal of required publications;
- The annual report equivalent to the registration document is filed in electronic format with the AMF; it is also filed with the Clerk of the French Commercial Court and is posted on the Dexia Crédit Local website;
- The half-yearly financial report is filed electronically with the AMF and is posted on the Dexia Crédit Local website;
- As required by disclosure regulations, all annual and half-yearly reports are released through an AMF-certified distributor of financial news releases (Thomson Reuters).

The Accounting and Communication departments perform reciprocal control cross-checks to ensure the consistency of the accounting and financial information published and made available to the public.

Management information

The financial statements (balance sheet, off-balance-sheet, income statements, cash-flow tables and appendices) are not the only detailed elements of analysis which Dexia sends to its shareholders, its investors and the public. They are completed by financial indicators, breakdowns and results analyses, outlooks and risk assessments, which are integrated in the annual report or submitted when presentations are made to shareholders and investors.

Some of these elements are supplied directly by operational departments or by the risk control department. Their accuracy is guaranteed by the internal control system of the departments concerned.

The majority of financial indicators and in particular those necessitating a crossing or aggregation of data from different origins, the breakdown of figures available globally, or a reprocessing of account data in relation to management parameters, are provided by the Consolidation and Management Control department.

These indicators are elaborated on the basis of information processed directly from local IT systems, and those of international entities. It is summarised monthly in a report to the Dexia and Dexia Crédit Local Management Board.
In the French and foreign entities with their own management control team, the monitoring of financial indicators and the analysis of results are guided locally in accordance with the same standards and the same principles, depending on the size, organisations and systems of each entity. These instructions are common throughout the Dexia Crédit Local Group.

The whole is guided, monitored and supervised by the Consolidation and Management Control department, which provides all the entities with standardised and secure collection tools, to make reliable and to optimise the information collection mechanism. Finally, the department aggregates everything.

The information aggregation process is performed in parallel with the consolidation process guided by the accounting functions. At each stage of the establishment of consolidated data, consistency controls are performed, based on the reconciliation of analytical and accounting information. This reconciliation is a vital element of internal control. It is completed by a systematic analytical review of the principal items.

Risk inventory

Banking activity generates four major types of risks: credit risk, market risk, transformation risk and operational risk (including legal risk).
The monitoring of all of these risks is detailed in the chapter entitled “Risk Management” of this registration document

External control

Statutory auditors

The statutory auditors make regular checks on the financial reporting of the various entities and subsidiaries of the Dexia Group.

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

Under Article 21 of the company’s articles of association, the shareholders’ meeting appoints two principal statutory auditors and two substitute statutory auditors meeting the conditions provided by the law and the regulations.

The auditors are appointed for six financial years, their office expiring after the shareholders’ meeting dealing with the financial statements for the sixth financial year.

The auditors have the functions and powers granted to them by the law. Their remuneration is set in accordance with the applicable regulatory provisions.

The mandates of the principal statutory auditors and the substitute statutory auditors were renewed at the shareholders' meeting held on 13 May 2014 for a term of six financial years to expire at the end of the shareholders' meeting dealing with the financial statements for the financial year which closes on 31 December 2019:

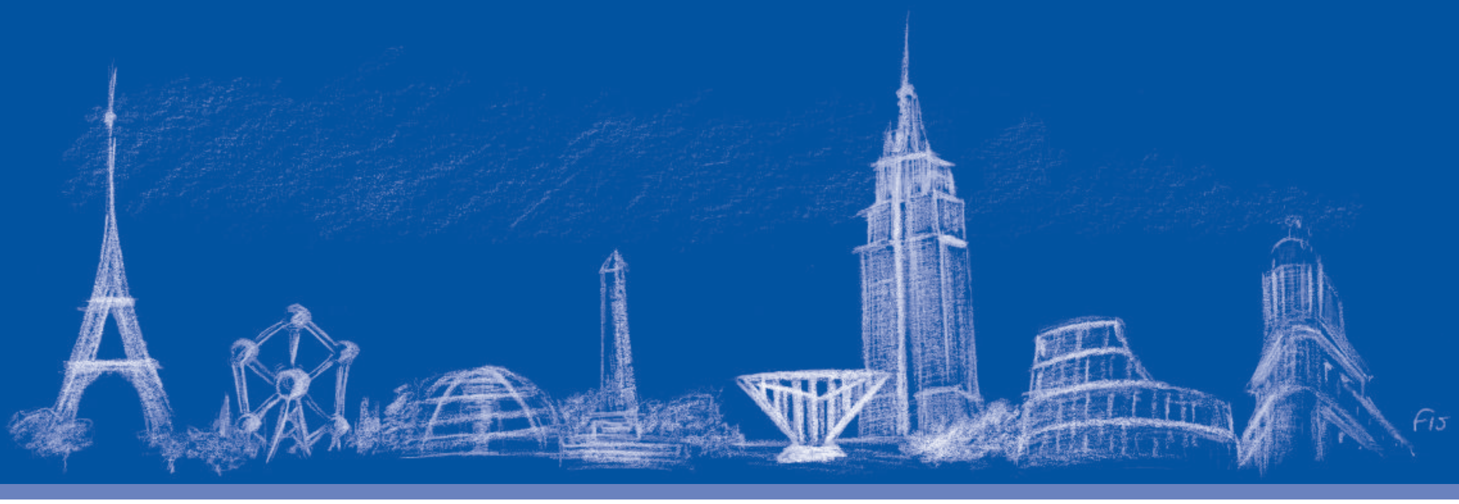
- Principal statutory auditors: Mazars and Deloitte & Associés;
- Substitute statutory auditors: Mr Charles de Boisriou and BEAS.

Auditors' remuneration

This table gives a summary of the remuneration paid to the statutory auditors for their services in 2017 for Dexia Crédit Local.

Remuneration of Statutory Auditors for 2017

(in thousands of EUR)	Mazars	Deloitte
Certification of statutory and consolidated financial statements	2,845	3,236
Other services	0	61



Declaration of corporate governance

Declaration of corporate governance

Reference code

Dexia Crédit Local refers to the AFEP-MEDEF Corporate Governance Code for listed companies (November 2016, hereinafter called the "AFEP-MEDEF Code" – document available at *www.afep.com*).
The members of the Board of Directors are all obliged to abide by Internal Rules which define their duties, within the framework of the principles of the Dexia Crédit Local code of professional ethics.

Shareholders' meetings

Shareholders' meetings are convened under the conditions set by the law. They are held at the registered office or at any other place chosen by the author of the convocation.
Any shareholder is entitled to be sent the documents necessary for them to deliberate in full knowledge of the facts and to make an informed judgement on the management and supervision of the company.
The nature of such documents and the conditions of their being sent or made available are determined by the law and regulations.
Any shareholder is entitled to attend meetings simply by proving their identity, provided nonetheless that their shares are paid up as required.
Shareholders may be represented by another shareholder. Proxies must be lodged at the registered office at least five days prior to the meeting.
The voting right attached to shares is proportional to the amount of capital they represent. Each share gives a right to one vote.
Each member of the meeting shall have as many votes as represented by the shares he or she holds and those of the shareholder he or she represents.

The Board of Directors

Composition

Dexia Crédit Local also refers, in addition to the aforementioned provisions, to the provisions of its parent company (Dexia) regarding corporate governance as well as the operation of the Board of Directors.
The task of the Board of Directors is to determine the orientations of the activity of Dexia Crédit Local and to ensure their implementation. Its action is guided by the corporate interest, which is considered having regard for its shareholders, clients and members of staff. There are no potential conflicts of interest between the duties, with regard to Dexia Crédit Local, of any member whatsoever of the Board of Directors and their private interests and/or other duties.
As at 1 March 2018, the Board of Directors was composed of fifteen members chosen by virtue of their skills and the contribution they can make to the company's administration. Mr Robert de Metz has been Chairman of the Board of Directors since 10 October 2012. He organises and runs the work of the Board, ensures the good operation of the corporate bodies of Dexia Crédit Local and participates in the company's relations with the institutional authorities. It is to be noted that Mr Corso Bavagnoli resigned from his post as director with immediate effect on 19 March 2018. Mr Thomas Courbe was co-opted as a director at the meeting of the Board of Directors on 29 March 2018. His definitive appointment will be proposed to the next ordinary shareholders' meeting.

The Board of Directors of Dexia Crédit Local is composed as follows:

- Robert De Metz, Chairman of the Board of Directors;
- Wouter Devriendt, CEO;
- Véronique Hugues, Executive Vice-President;
- Johan Bohets, Executive Vice-President;
- Aline Bec, Executive Vice-President;
- Corso Bavagnoli, Director (resigned with immediate effect on 19 March 2018);
- Alexandra Serizay, Director;
- Lucie Muniesa, Director;
- Bart Bronselaer, Director;
- Alexandre De Geest, Director;
- Thierry Francq, Director;
- Michel Tison, Director;
- Koen Van Loo, Director;
- Martine De Rouck, Director;
- Véronique Taï, Director.

The representatives of the Works Council are:
Mrs Catherine Bachelet
Mr Philippe Keravel

In order to comply with the provisions of Article L. 225-17 of the Companies Code requiring the Board to be composed of a balance representation of men and women, and in line with the action plan proposed by the Appointments Committee and approved by the Board of Directors of Dexia Crédit Local aiming to achieve the objective of 40% women on the Board, during 2017 the shareholders' meeting appointed Mrs Martine De Rouck, Mrs Véronique Taï and Mrs Aline Bec as directors.

Operation

In accordance with its obligations under the CRD IV Directive, and its transposition into national law, Dexia Crédit Local has introduced procedures and processes necessary for verification of the expertise and professional integrity of directors, responsible executives or employees and heads of independent control functions. Fulfilment of these obligations involves several departments, with the Human Resources department in charge, on behalf of the Management Board and the Board of Directors, of the process of selection and recruitment, the Compliance department in charge of checking the integrity of candidates, the absence of conflicts of interest resulting from other posts or mandates, the General Secretariat in charge of relations with the regulatory and control authorities. Such verification, which occurs at the time a candidate is recruited, will be the object of an annual assessment.

The Internal Rules, which are among the documents which can be consulted at the company's registered office, in particular stress the importance of their active participation in the work of the Board. It also states that members of the Board of Directors are considered to be persons performing sensitive functions and therefore subject to the strictest obligations concerning transactions involving Dexia securities. Any transaction carried out by members of the Management Board on Dexia securities must be reported in advance to the Compliance Officer of Dexia Crédit Local and his authorisation obtained.

The Board of Directors meets at least once per quarter. In 2017, it met ten times. The attendance rate was 95%.

The Chairman of the Board of Directors and the Chief Executive Officer provide members of the Board of Directors with all information, in particular of a strategic nature, necessary for the proper performance of their functions.

Prior to a meeting, directors receive an agenda as well as a file containing notes or documents relating to the agenda.

Directors are appointed in accordance with the law and the articles of association. At meetings of the Board, the Chief Executive Officer presents the activity and the financial statements for the past period. The Board also recurrently examines the work of the audit, internal control and risk management committees.

Activities of the Board of Directors

In addition to matters falling within the ordinary remit of the Board of Directors (monitoring results, approving the budget, appointment and remuneration of Management Board members, convening of ordinary and extraordinary shareholders' meetings, minutes of specialised committee meetings), the Board dealt in particular with numerous subjects from the Audit and Risk Committee, and the following points:

- Solvency and measures to protect the capital of the Dexia Group;
- Group liquidity, long-term VLTM funding projections, ICAAP;
- Strategic and IT projects, operational risk management;
- Project to outsource the Group's IT and back office activities;
- IFRS 9;
- Deleveraging policy and new approach to portfolio management;
- Orderly resolution plan and alternative strategies;
- Corporate governance charter;
- Governance: appointing new directors, renewing the mandates of certain directors, succession of the General Auditor and the self-assessment exercise for the Board of Directors and specialised committees;
- Executive remuneration report;
- Policies on compliance, internal audit, exercise of outside mandates.

Specialised committees

In accordance with the provisions of Articles L.511-89 of the Monetary and Finance Coder and L.823-19 of the French Commercial Code, the Board of Directors has created the following specialised committees:

- Audit Committee;
- Risk Committee;
- Remuneration Committee;
- Appointments Committee.

In view of the Dexia Group's specific situation and in order to maintain simplified and unified Group management, specialised committees are established within the parent company, Dexia, observing legal provisions applicable in terms of functions and composition.

Reference is also made therefore to the Dexia annual report for more detailed information concerning these different specialised committees.

After each meeting of a committee, a report on the work of the specialised committee concerned is presented to the Board of Directors. Minutes of the meetings of specialised committees are drawn up and forwarded to the Chairman of the Board of Directors in order, after approval by all the members of the committee, to be appended to the file for the next meeting of the Board of Directors.

The Audit Committee

The Audit Committee established at Dexia Board of Directors level and competent for Dexia Crédit Local met seven times in 2017.

The Audit Committee is composed of non-executive directors, among which a majority of members are independent, including the committee chairman, in accordance with the provisions of Belgian law.

The composition of the committee is as follows:

- Alexandra Serizay, independent director and chairman of the committee;
- Bart Bronselaer, independent director;
- Thierry Francq, director;
- Michel Tison, director.

The Audit Committee is responsible for monitoring the accounts, and the financial information process. It examines the Dexia Group's draft annual, half-year and quarterly statutory and consolidated financial statements, which must then be presented, approved and published, as the case may be, by the Board of Directors. It examines all matters relating to those accounts and to the financial reports and in particular checks the choice of accounting principles, the impairments, the observance of prudential standards, the relevance and permanence of the accounting principles and methods applied and the adequacy of the consolidation scope adopted. The Audit Committee also ensures the adequacy of the external audit for the Group's requirements and monitors the efficiency of the internal audit and risk management systems.

The Risk Committee

The Risk Committee established by the Dexia Board of Directors and competent for Dexia Crédit Local met eleven times in 2017.

The Risk Committee is composed exclusively of non-executive directors and at least one independent director, including the committee chairman, who have sufficient skills in the fields of activity of the Dexia Group to enable them to understand the Group's strategy and the level of its risk tolerance.
The composition of the committee is as follows:
• Bart Bronselaer, independent director and chairman of the committee;
• Lucie Muniesa, director;
• Alexandre De Geest, director;
• Michel Tison, independent director.
The Risk Committee is responsible for monitoring aspects of strategy and level of tolerance with regard to current and future risks. It assists the Board of Directors when the latter supervises the implementation of such strategy by the Management Board. The Risk Committee examines the (operational) implementation of procedures regarding risk control and internal audit. It ensures integrity and adequacy in relation to risk management, including procedures and organisational structures.

The Risk Committee also deals with any observations and recommendations from the supervisory authorities in matters falling within its competence.

The Audit Committee and the Risk Committee meet as often as necessary to deal with joint matters, on convocation by the chairman of the Board of Directors, or on convocation by the chairman of the Audit Committee or the Risk Committee as the case may be.

Joint meeting of the Audit and Risk Committees

The joint meeting of the Audit and Risk Committees established by the Dexia Board of Directors and competent for Dexia Crédit Local was held once in 2017.
The Audit Committee and the Risk Committee meet as often as necessary to deal with common matters, on convocation by the Chairman of the Board of Directors, or on convocation by the chairman of the Audit Committee or the Risk Committee as the case may be.
The chair of these meetings is taken by the chairman of the Audit Committee.

The Remuneration Committee

The Remuneration Committee established by the Dexia Board of Directors and competent for Dexia Crédit Local met four times in 2017.
The Remuneration Committee is composed of at least three non-executive directors including the Chairman of the Board of Directors and a majority of independent members within the meaning of Belgian law. The Chief Executive Officer and the Head of Human Resources attend meetings, without being members.
The Remuneration Committee must have the expertise necessary pertinently and independently to judge remuneration policies and practices.
The Remuneration Committee is composed as follows:
• Martine De Rouck, independent director and chairman of the committee;
• Robert de Metz, independent director;
• Lucie Muniesa, director;
• Michel Tison, independent director;
• Alexandre De Geest, director.

The Remuneration Committee:
• Prepares decisions of the Board of Directors relating to the remuneration of the Chairman of the Board of Directors, the CEO, Executive Vice-Presidents, members of the Management Board;
• Issues opinions on the company's remuneration policy and any alteration made to it;
• Prepares decisions concerning remuneration and, in particular, those with repercussions on risk and risk management. It also prepares and supervises decisions in relation to the remuneration of persons responsible for the independent control functions.

The Appointments Committee

The Appointments Committee Committees established by the Dexia Board of Directors and competent for Dexia Crédit Local met five times in 2017.
The Appointments Committee is composed of at least three non-executive directors, including the Chairman of the Board of Directors and at least one independent director within the meaning of Belgian law. The Chief Executive Officer and the Head of Human Resources attend meetings, without being members. The Appointments Committee must have the necessary expertise in appointments policy, appropriately assessing the skills and fields of expertise of people it appoints within the Dexia Group.

The Appointments Committee is composed as follows:
• Robert de Metz, independent director and chairman of the committee;
• Thierry Francq, director;
• Koen Van Loo, director;
• Martine De Rouck, independent director.

The Appointments Committee prepares decisions of the Board of Directors relating to:
• Proposals for the appointment or renewal of directors by the Board of Directors to the shareholders' meeting, and proposals to co-opt directors. On the renewal of a director's mandate, the Appointments Committee assesses the director's participation in the operation of the Board of Directors and reports with a recommendation. For any new appointment, before considering the approval of the candidature, it ensures that the Board of Directors has, in accordance with internal procedures, received sufficient information on the candidate enabling it to assess whether that candidature meets the general profile of directors and the required skills;
• Determination of independence criteria enabling a director to be considered "independent";
• The qualification of an existing or new member of the Board of Directors as an independent director.

In general, the Appointments Committee ensures that decision-taking within the Board of Directors is not performed by one or more people in a manner prejudicial to the company.

Within its remit, the Appointments Committee deals with recommendations, circulars and other international, French and Belgian regulations on remuneration and corporate governance.

The Management Board

The Management Board is headed by the Chief Executive Officer appointed by the Board of Directors. The Board of Directors determines the mode of operation of the Management Board in the appointment of the Chairman and at any time it deems appropriate.

Subject to the powers expressly attributed by the law to shareholders' meetings and the Board of Directors and within the limits of the corporate object, the Chief Executive Officer has the most extensive powers to act in any circumstance on behalf of the company. He represents the company in its relations with third parties. The Chief Executive Officer may be dismissed at any time by the Board of Directors, under the conditions set by the law. The age limit provided for performance of the functions of Chief Executive Officer is 70 years. If that age limit is exceeded, then he or she shall be deemed to have resigned automatically at the end of the next meeting of the Board of Directors.

The meeting of the Board of Directors on 16 May 2016 appointed Mr Wouter Devriendt as Chief Executive Officer, for the entire term of his director's mandate, i.e. until the shareholders' meeting ruling on the financial statements closed on 31 December 2019 and decided that the Chief Executive Officer has the most extensive powers to act in all circumstances on behalf of the company. On the proposal of the Chief Executive Officer, the Board of Directors may appoint one or more natural persons to assist the Chief Executive Officer, with the title of Executive Vice-President. The number of Executive Vice-Presidents may not exceed five. In accordance with Article L. 225-56, II, paragraph 2 of the French Commercial Code, Executive Vice-Presidents have the same powers as the Chief Executive Officer vis-à-vis third parties.

As at 31 March 2018, the Management Board consisted of:

- Wouter Devriendt, Chief Executive Officer;
- Véronique Hugues, Executive Vice-President and Chief Finance Officer;
- Johan Bohets, Executive Vice-President and Chief Risk Officer;
- Guy Cools, Executive Vice-President in charge of Assets;
- Benoit Debroise, Executive Vice-President in charge of Funding and Markets;
- Aline Bec, Executive Vice-President and Chief Operating Officer.

Remuneration Report

Remuneration paid to directors in 2017

In accordance with Article L.225-45 of the French Commercial Code, the Dexia Crédit Local shareholders' meeting is competent to allocate attendance fees to directors as remuneration for their activity as a fixed annual sum. The meeting freely determines the amount of such attendance fees by voting an overall amount. Distribution between the different directors is made freely by the Board of Directors. The shareholders' meeting held on 12 March 2015 decided to set the overall envelope of the remuneration of non-executive directors at EUR 425,000. The Board of Directors meeting on 18 February 2015 decided to allocate to non-executive directors a fixed remuneration of EUR 3,000 per quarter and attendance fees of EUR 2,000 per meeting.

The Chairman of the Board of Directors is exclusively remunerated by Dexia for his mandate as Chairman of the Board of Directors of Dexia. On 2 August 2012, the Board of Directors of Dexia set the gross remuneration of the Chairman, on a proposal from the Remuneration Committee at a fixed overall annual amount of EUR 250,000.

The Chief Executive Officer and the Executive Vice-Presidents who are also directors receive no remuneration for their mandate as director. Their remuneration is detailed in the section below relating to remuneration paid to the Management Board.

REMUNERATION PAID TO DIRECTORS FOR THE EXERCISE OF THEIR MANDATE WITH DEXIA AND IN OTHER GROUP ENTITIES

(gross amount in EUR)	BoD (Fixed rem. paid by Dexia)	BoD (Fixed rem. paid by Dexia Crédit Local)	BoD (attendance fees paid by Dexia)	BoD (attendance fees paid by Dexia Crédit Local)	Audit Committee	Risk Committee	Remu-neration Committee	Remu-neration Committee	Total 2017	Total 2016
R. de Metz[(2)]	250,000	0	0	0	0	0	0	0	250,000	250,000
W. Devriendt	0	0	0	0	0	0	0	0	0	0
J. Bohets	0	0	0	0	0	0	0	0	0	0
V. Hugues	0	0	0	0	0	0	0	0	0	0
C. Bavagnoli[(1)]	0	12,000	9,000	14,000	0	0	0	0	35,000	26,000
B. Bronselaer[(2)]	0	12,000	12,000	16,000	7,000	13,500	0	0	60,500	50,000
A. De Geest	0	12,000	12,000	16,000		9,000	0	750	49,750	49,250
Th. Francq[(1)]	0	12,000	12,000	16,000	7,000		3,750	0	50,750	38,500
L. Muniesa[(1)]	0	12,000	11,000	14,000		7,000	0	3,000	47,000	25,000
M. De Rouck[(2)] (appointed 17 May 2017)		9,000	9,000	12,000			1,500	750	32,250	NA
A. Serizay[(2)]	0	12,000	12,000	16,000	10,500		1,000	0	51,500	17,500
M. Tison[(2)]	0	12,000	12,000	16,000	4,000	5,000	0	3,000	52,000	42,500
K. Van Loo	0	12,000	11,000	12,000	0	0	3,000	0	38,000	32,250

(1) In accordance with Article 139 of the French Law on the new economic regulations, attendance fees (fixed and variable portion) for mandates performed by representatives of the French government are to be paid to the French government account.
(2) Independent directors within the meaning of the Belgian law.

Remuneration paid to the Management Board in 2017

The members of the Management Board of Dexia Crédit Local referred to in the present section are on the one hand the Chief Executive Officer and the Executive Vice-Presidents of the company as at 31 December 2017.
Mr Wouter Devriendt, Chief Executive Officer, Benoît Debroise and Johan Bohets Executive Vice-Presidents, are not however remunerated by Dexia Crédit Local by virtue of their mandate within the company. They are in fact remunerated by Dexia in their capacity as members of the latter's Management Board. Mr Guy Cools, Executive Vice-President, is not remunerated for his mandate within Dexia Crédit Local but by Dexia Crédit Local New York Branch for his functions performed within the US entities of the Dexia Group. However, in accordance with Article L.225-102-1 paragraph 2 of the French Commercial Code, the remuneration paid to members of the Management Board by another Group entity must also be mentioned in the present chapter.

Composition of the remuneration

The remuneration of the Chief Executive Officer and Executive Vice-Presidents is composed solely of a fixed portion, not linked to performance, and constitutes a whole from which, unless there is a decision to the contrary by the Board of Directors on a proposal from the Remuneration Committee, a deduction is made for any attendance fee or percentage paid to a member of the Management Board by a company in the Dexia Group or by a third party company in which a mandate is exercised on behalf of Dexia.

Consequently, no variable remuneration was or will be granted for the year 2017 to the Chief Executive Officer and the Executive Vice-Presidents.

Furthermore, in line with the undertakings made by Dexia within the framework of the 2013 guarantee agreement concluded with the Belgian, French and Luxembourg States and for so long as the guarantee obligations exist or are liable to be issued, and unless there is an agreement with the States, Dexia will not make any attribution of options to subscribe to or purchase shares or free shares and no payment of indemnities or benefits indexed to performance, or deferred remuneration in favour of the following persons: Chairman of the Board of Directors, Chief Executive Officer and Executive Vice-Presidents.

For the first time, for the 2017 financial year, there is an obligation to publish individually the remuneration and extra-legal benefits of each member of the Management Board. Concerning such extra-legal benefits, it is important to stress that the differences of sometimes significant sums (in particular on pensions) do not correspond to notable differences in the salary but at the levels of the various deductions for legal or contractual schemes depending on the country and statuses.

Remuneration for the year 2017

Basic remuneration consists solely of a fixed part.

SUMMARY TABLE OF THE BASIC REMUNERATION PAID IN 2017 TO THE CHIEF EXECUTIVE OFFICER AND EXECUTIVE VICE-PRESIDENTS

(in EUR)	Entity – Country	Gross basic remuneration
Wouter Devriendt	Dexia – Belgium	600,000
Johan Bohets	Dexia – Belgium	445,000
Benoît Debroise	Dexia – Belgium	403,893
Aline Bec	Dexia Crédit Local – France	450,000
Véronique Hugues	Dexia Crédit Local – France	420,000
Guy Cools	DCL New York – United States	630,482[(1)]

(1) This remuneration, paid in US dollars and expressed at the average annual EUR/USD rate, is for his functions as Chief Executive Officer of Dexia Crédit Local New York Branch and Dexia Financial Products Services and takes account of his 29 yeas of service with the Dexia Group. The mandate of Executive Vice-President of Dexia Crédit Local is performed free of charge.

Supplementary pension schemes

Members of the Management Board who do not perform their function within the framework of a French contract (Belgium and the United States) benefit from a supplementary pension put in place by Dexia.

Characteristics of the applicable supplementary pension schemes

The supplementary pension schemes of the members of the Management Board are defined contribution schemes not generating social liabilities for the company.

For members of the Management Board present in Belgium, they give a right, on retirement, to the capital constituted by a capitalisation of annual contributions (21%), the latter having a ceiling. For 2017 no remuneration exceeded this contribution ceiling.

For members of the Management Board present in the United States, they give a right, on retirement, to the capital constituted by a capitalisation of annual contributions (8%), the latter having a ceiling. For 2017 the remuneration exceeded this contribution ceiling (EUR 237,089).

Amounts paid under these supplementary pension schemes[(1)]

Annual premiums of EUR 323,935 were paid in 2017 in favour of members of the Management Board. Obligatory contributions paid to pension funds, in particular for French members of the Management Board, need not be indicated in the table below.

(in EUR)	Entity – Country	Supplementary pension schemes
Wouter Devriendt	Dexia – Belgium	126,290
Johan Bohets	Dexia – Belgium	93,665
Benoît Debroise	Dexia – Belgium	85,013
Aline Bec	Dexia Crédit Local – France	-
Véronique Hugues	Dexia Crédit Local – France	-
Guy Cools	DCL New York – United States	18,967

Supplementary death cover, permanent invalidity and medical costs

Collective annual premiums of EUR 172,991 were paid in 2017 in favour of members of the Management Board for supplementary death cover, permanent invalidity and medical costs, the breakdown of which is stated in the table below.

Differences of level can be explained by status (freelance in Belgium / employee in France and the United States), schemes to specific to each country, salaries and family situations in particular the number of dependent children.

(in EUR)	Entity – Country	Death cover, orphans	Invalidity	Medical costs
Wouter Devriendt	Dexia – Belgium	40,680	21,489	517
Johan Bohets	Dexia – Belgium	12,937	15,248	517
Benoît Debroise	Dexia – Belgium	22,879	14,112	517
Aline Bec[(1)]	Dexia Crédit Local – France	1,842	786	5,355
Véronique Hugues[(1)]	Dexia Crédit Local – France	1,842	786	5,355
Guy Cools	DCL New York – United States	811	421	26,897

(1) French staff members who as employees must be affiliated to the collective agreement concerning all Dexia Crédit Local staff members.

(1) Defined contribution schemes

Other benefits to members of the Management Board (1)

(in EUR)	Entity – Country	Representation costs	Telephone allowance(2)	Car allowance(2)
Wouter Devriendt	Dexia – Belgium	6,324	150	4,610
Johan Bohets	Dexia – Belgium	6,324	150	6,006
Benoît Debroise	Dexia – Belgium	6,324	150	3,335
Aline Bec	Dexia Crédit Local – France	0	0	2,588
Véronique Hugues	Dexia Crédit Local – France	0	0	1,296
Guy Cools	DCL New York – United States	0	0	17,377

(1) The differences of amount are explained by tax regulations specific to each country.
(2) This amount corresponds to the tax advantage associated with the provision of a company car/ telephone which can also be used for private purposes, with the exception of the person present in New York who receives a lease allocation.

Option plan

Since 2009, no option plan has been granted or exercisable.

Severance conditions

Provisions relating to severance payments under the Dexia remuneration policy

According to Dexia remuneration policy, any severance payment must correspond to effective performances in time and be designed not to reward failure or improper conduct.
Members of the Management Board of Dexia cannot be granted a severance payment of more than 9 months of fixed remuneration.
Departing from the above, Dexia may grant a higher severance payment if the person concerned, prior to the grant of the executive mandate, in accordance with the contractual framework applicable and on the basis of their accumulated length of service with the Dexia Group, might be entitled, in the case of severance, to a payment in lieu of notice higher that the aforementioned severance payment. Those conditions might be applicable to Mrs Véronique Hugues, Mr Guy Cools and Mr Benoît Debroise.

Provisions relating to severance payments contained in the contracts of employment

Mr Wouter Devriendt is entitled, in the event of termination of his contract by Dexia on grounds other than serious wrong to notice (or compensation in lieu of notice) corresponding to one month per year of service with a minimum of 3 months and a maximum of 9 months.
The management agreements of Messrs Benoît Debroise and Johan Bohets stipulate that in the case of termination by one of the parties prior to the expiry of the contract term on grounds other than serious wrong a notice of three months will be served on the other party.

Information on the service contracts binding members of the administrative and management bodies of Dexia Crédit Local or one of its subsidiaries and providing for the grant of benefits at the end of such a contract

None.

Mandates and functions performed by corporate officers during the financial year

In application of Article L. 225-102-1 paragraph 4 of the French Commercial Code, below are the mandates and functions performed by each corporate officer of Dexia Crédit Local as at 31 December 2017.

Mr Robert de Metz

Professional address: CBX Tower- 1, Passerelle des Reflets - La Défense 2 - 92919 La Défense Cedex
3 January 1952
- Chairman of the Board of Directors of Dexia
- Director of Média-Participations SA
- Chairman of the Supervisory Board of Media Participations SCA
- Director of the Martinière Groupe SA
- CEO of Bee2Bees SA
- Member of the Executive Committee of the Fondation pour les Monuments Historiques

Mr Wouter Devriendt

Professional address: CBX Tower - 1, Passerelle des Reflets - La Défense 2 - 92919 La Défense Cedex
10 April 1967
- Chairman of the Management Board of Dexia, CEO of Dexia
- Director and Chairman of the Board of Directors of Dexia Crediop

Mr Johan Bohets

Professional address: CBX Tower - 1, Passerelle des Reflets - La Défense 2 - 92919 La Défense Cedex
13 September 1971
- Director and member of the Management Board of Dexia
- Director of Dexia Crediop
- Director of Dexia Holdings Inc.
- Independent director of Keyware Technologies SA
- Director of Pinnacle Investments SA
- Manager of Moirai Management BVBA

Mrs Véronique Hugues

Professional address: CBX Tower - 1, Passerelle des Reflets - La Défense 2 - TSA 12203. 92919 La Défense Cedex
28 May 1970
- Executive Director and member of the Management Board of Dexia
- Permanent Representative of Dexia, Stable Establishment in France

Mrs Aline Bec
Professional address: CBX Tower - 1, Passerelle des Reflets - La Défense 2 - 92919 La Défense Cedex
24 January 1957
• Observer within the Board of Directors of Dexia SA
• Member of the Board of Directors

Mr Corso Bavagnoli
Professional address: 139, Rue de Bercy – 75572 Paris Cedex 12
21 July 1973
• Non-Executive Director of Dexia Crédit Local

Mr Bart Bronselaer
Professional address: St Martinusberg 11, 3360 Bierbeek (Belgium)
6 October 1967
• Independent director of Dexia
• Non-executive director of Alpha 11 Inc. (United States)
• Non-executive director of Alpha 11 Europe (United Kingdom)
• Non-executive director of Right Brain Interface (held 100% by Alpha Inc)
• Independent Director of United Pensions OFP
• Director of the Private Foundation Le Bois Clair
• Director of the Private Foundation GH. Piot
• Director of Katholiek Onderwijs Kessel-Lo VZW
• Director of the Abbaye d'Oignies VZW

Mr Alexandre De Geest
Professional address: Avenue des Arts 30, 1040 Brussels (Belgium)
5 February 1971
• Non-executive director of Dexia
• Director of the Silver Funds
• General administrator of the Belgian Federal Public Service Finance (FPS Finance)

Mr Thierry Francq
Professional address: 139, Rue de Bercy – 75572 Paris Cedex 12
30 April 1964
• Non-executive director of Dexia

Mr Michel Tison
Professional address: Universiteitstraat 4, 9000 Gent (Belgium)
23 May 1967
• Independent director of Dexia

Mr Koen Van Loo
Professional address: Avenue Louise 32 Box 4, 1050 Brussels (Belgium)
26 August 1972
• Non-executive director of Dexia,
• Deputy director of the Société fédérale de participations et d'investissement
• Director of Capricorn ICT Fund
• Non-executive director of Certi-Fed
• Director of Kasteel Cantecroy Beheer
• Non-executive director of Ginkgo Management Fund SARL
• Director of Fundo Performa-Key de Inovaçâo

Mrs Alexandra Serizay
Professional address: 255, Quai de la Bataille de Stalingrad, 92130 Issy-les-Moulineaux
31 March 1977
• Non-executive director of Dexia
• Head of Global Strategic Planning Corporate Services at Sodexo

The French State represented by Lucie Muniesa
Lucie Muniesa
Professional address: 139, Rue de Bercy – 75572 Paris cedex 12
22 February 1975
• Non-executive director of Dexia
• Director of Consortium de Réalisation (CDR)
• Director of the Palais de Tokyo SAS,
• Director of Engie SA
• Director of Orange SA
• Director of Safran SA

Mrs Véronique Taï
Professional address: Rue de la loi 24, 1000 Brussels (Belgium)
20 June 1968
• Observer within the Board of Directors of Dexia
• Non-executive director of the company REKODE SA
• Chairman of the Board of Directors of FIF SA (subsidiary of the FHIC).

Mrs Martine De Rouck
Professional address: Kleine Geeststraat 57, 1933 Sterrebeek (Belgium)
12 August 1956
• Independent director of Dexia
• Non-executive director of Orange Belgium
• Director of the Institute of Forensic Auditors (ASBL)

Information on non-regulated agreements

Article L.225-102-1 of the Commercial Code requires that companies list in their management report all agreements reached directly or via third parties between:
• a director, the Chief Executive Officer, one of the Executive Vice-Presidents of the company or one of its shareholders with voting rights higher than 10%, on the one hand; and,
• companies in which the company directly or indirectly has a 50% holding or higher, on the other hand.
Agreements on current transactions signed under normal conditions do not have to be listed.
List of agreements included in the Financial Products (FP) portfolio guarantee
Dexia sold the Financial Security Assurance (FSA) insurance unit to Assured Guaranty Ltd (Assured). The transaction was finalised on 1 July 2009. FSA's Financial Products (FP) activity, managed by FSA Asset Management (FSAM), was excluded from the scope of the sale and is still part of Dexia Group. To the extent that FSA is the guarantor of the FP business' liabilities, the sale necessarily required that Dexia and Dexia Crédit Local guarantee FP's assets and liabilities.
In its turn, Dexia received a counter-guarantee from the Belgian and French governments for certain FP business assets (Guaranteed FP Assets). The guarantee was approved by the European Commission on 13 March 2009[1]. It should be noted that in 2011 FSAM sold, via Dexia Crédit Local New York (DCLNY), all remaining Guaranteed FP Assets to third parties such that, on 31 December 2011, no Guaranteed FP

(1) Detailed information on the guarantees has been published in Dexia annual reports since 2009 (the annual reports can be viewed on Dexia's website: www.dexia.com) and the main provisions of the guarantees are described in the 2011 annual report (page 165).

Assets were covered by government guarantees. However, the guarantee continues to exist from a technical standpoint, although the risk of a call for the guarantee is theoretical.
The agreements referred to below are for the management of FP assets and liabilities held by FSAM and managed in run-off by the Group.
Pledge and Administration agreement, signed 30 June 2009, by Dexia, Dexia Crédit Local (DCL), Dexia Bank Belgium, Dexia FP Holdings Inc., FSA Asset Management LLC, FSA Portfolio Asset Limited, FSA Capital Markets Services LLC, FSA Capital Management Services LLC, FSA Capital Markets Services (Caymans) Ltd, Financial Security Assurance Inc. and The Bank of New York Mellon Trust Company, National Association;
1.1 Dexia Guaranteed Put agreement signed 30 June 2009 by DCLNY, Dexia and FSAM;
1.2 *Dexia FP Guarantee Reimbursement* agreement signed 30 June 2009 by Dexia, DCL, FSAM and other GIC Business Entities;
1.3 *Dexia Non-Guaranteed Put agreement* signed 30 June 2009 by DCLNY, Dexia and FSAM;
1.4 *Administrative Services Agreement* signed 30 June 2009 by Dexia, DCL, AGM, DFPS, FSAM and other GIC Business Entities;
1.5 *Third Amended and Restated Intercompany* agreement signed on 20 February 2013 (effective 27 December 2012) by DSA, DCLNY and Dexia Holdings Inc.

Current delegations granted by the shareholders' meeting

Nature of the delegation or authorisation	Extraordinary shareholders' Meeting	Expiries	Amount authorised	Use during previous financial years	Use during the financial year closed as at 31 December 2017	Residual amount as at 31 December 2017
1 Delegation of competence to decide and make an increase of share capital of the company in cash	30 December 2016	30 December 2017	EUR 150,000,000	N/A	0	0

Elements liable to have an impact in the event of a public takeover or exchange offer (Article L225-37-5)

None

Structure of the share capital

As at 31 December 2017, the share capital of Dexia Crédit Local amounted to EUR 279,213,332. It is divided into 279,213,332 shares each with a nominal value of EUR 1.00. Each share has one voting right attached and none is pledged. To date there is no other security giving access to the capital of Dexia Crédit Local.
The share capital of Dexia Crédit Local is held, directly and almost completely by Dexia, the Chief Executive Officer holding one share in the company.
Indirectly, via Dexia, the capital of Dexia Crédit Local is held 52.78% by the Federal Holding and Investment Company (FHIC) acting on delegation on behalf of the Belgian State and 46.80% by the French State.
Article 10 of the articles of association provides that:
I. The disposal or mutation of shares in one of the two (2) cases referred to below is free and will regularised immediately without need for the approval of the Board of Directors provided in paragraph II below:
(1) Disposal or mutation of shares in favour of companies in the Dexia Group;
(2) Disposal or mutation to any natural person or company newly appointed to the post of member of the Board of Directors of the company, of a share in the company, as well as disposal or mutation of a share to its original transferor in the case of a retrocession by a member of the Board of Directors of the company particularly at the expiry of their mandate.
II. Subject to legal provisions in force, the disposal or mutation of shares to a third party on whatsoever ground and in whatsoever form must, in order to become definitive, be subject to the company's approval given by the Board of Directors which will rule within the month of its submission.

Proposals for resolutions to be submitted to the shareholders' meeting

Proposal to approve the annual financial statements

After having had the Board of Directors' report, the report by the Chairman of the Board of Directors and the Auditors' report read out, the ordinary shareholders' meeting approves the annual financial statements as at 31 December 2017 as they have been presented to it, with all the operations reflected by these financial statements or mentioned in the aforesaid reports, and showing a negative result of EUR 1,003,770,301.56.
The ordinary shareholders' meeting approves the overall amount of the non-deductible expenses and charges for the profits subject to corporation tax (Article 39 of the General

Tax Code), amounting to EUR 30,477, which has not brought about additional corporation tax bearing in mind the tax loss for the 2017 financial year.

Proposal to approve the consolidated financial statements

After having had the Board of Directors' report, the report by the Chairman of the Board of Directors and the Auditors' report read out, the ordinary shareholders' meeting approves the consolidated financial statements as at 31 December 2017 as they have been presented to it, with all the operations reflected by these financial statements or mentioned in the aforesaid reports, and showing a net income group share of EUR -240,799,657.

Proposal to approve regulated agreements and commitments

After having had the Auditors' special report on regulated agreements and commitments referred to in Article L. 225-38 of the French Commercial Code read out, the ordinary shareholders' meeting approves the regulated agreements and commitments referred to therein under the conditions laid down in Article L. 225-40 of the same Code.

Proposal to grant final discharge to corporate officers

Further to approval of the previous resolutions, the ordinary shareholders' meeting grants full and unreserved discharge to the company's corporate officers in respect of fulfilment of their mandate with regard to the financial year closed on 31 December 2017.

Proposal to grant final discharge to the Chief Executive Officer and the Executive Vice-Presidents

Further to approval of the previous resolutions, the ordinary shareholders' meeting grants full and unreserved discharge to the Chief Executive Officer and to the Executive Vice-Presidents in respect of fulfilment of their mandate with regard to the financial year closed on 31 December 2017.

Proposal to appropriate the profit/loss

The ordinary shareholders' meeting decides to charge the positive result for the financial year, amounting to EUR 1,003,770,301.56, in its entirety to the retained earnings/losses account.

Once this loss amount has been charged, the retained earnings/losses account will show a negative figure of EUR -30,662,550.99.

In accordance with Article 243b of the General Tax Code, the shareholders' meeting recalls that no dividend has been paid during the previous three financial years.

Proposal to certify the financial statement by the statutory auditors

In accordance with the provisions of Article L. 822-14 of the French Commercial Code, the ordinary shareholders' meeting formally records the fact that the annual and consolidated financial statements for the financial year closed on 31 December 2017 have been audited by the statutory auditors:

- Mrs Claire Gueydan, partner, representing the company Mazars, on the one hand; and
- Mr Pascal Colin and Mr Jean-Vincent Coustel, partners, representing the company Deloitte & Associés, on the other hand.

Vote on the elements of the pay policy attributable to Mr Robert de Metz, Chairman of the Board of Directors

After reading the elements of the pay policy attributable to executives as presented in the report of the Board of Directors on corporate governance, in application of Article L.225.37 of the French Commercial Code, the shareholders' meeting approves the policy for remuneration attributable to the Chairman of the Board of Directors as presented in that report.

Vote on the elements of the pay for remuneration attributable to Mr Wouter Devriendt, Chief Executive Officer

After reading the elements of the policy for remuneration attributable to executives as presented in the report of the Board of Directors on corporate governance, in application of Article L.225.37 of the French Commercial Code, the shareholders' meeting approves the pay policy attributable to the Chief Executive Officer as presented in that report.

Vote on the elements of the pay policy attributable to the Executive Vice-Presidents

After reading the elements of the policy for remuneration attributable to executives as presented in the report of the Board of Directors on corporate governance, in application of Article L.225.37 of the Commercial Code, the shareholders' meeting approves the pay policy attributable to the Executive Vice-Presidents as presented in that report.

Vote on the elements of the remuneration paid or attributed for the 2017 financial year to Mr Robert de Metz, Chairman of the Board of Directors

In application of Article L.225-100 II of the French Commercial Code, the shareholders' meeting approves the elements of the remuneration paid or attributed for the 2017 financial

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year to Mr Robert de Metz, Chairman of the Board of Directors as presented in the table appearing on 58 of the Declaration of Corporate Governance.

Vote on the elements of the remuneration paid or attributed for the 2017 financial year to Mr Wouter Devriendt, Chief Executive Officer

In application of Article L.225-100 II of the French Commercial Code, the shareholders' meeting approves the elements of the remuneration paid or attributed for the 2017 financial year to Monsieur Wouter Devriendt, Chief Executive Officer as presented in the table appearing on 59 of the Declaration of Corporate Governance.

Vote on the elements of the remuneration paid or attributed for the 2017 financial year to the Executive Vice-Presidents

In application of Article L.225-100 II of the French Commercial Code, the shareholders' meeting approves the elements of the remuneration paid or attributed for the 2017 financial year to Executive Vice-Presidents as presented in the table appearing on 59 of the Declaration of Corporate Governance.

Proposal to set the overall wage bill

In application of Article L. 511-73 of the Monetary and Financial Code, the ordinary shareholders' meeting issues a favourable opinion as to the overall wage bill for pay awarded to the persons mentioned in Article L. 511-71 of said Code during the financial year closed on 31 December 2017, which amounts to EUR 13,865,002 (fixed salary and any bonuses).
This wage bill thus covers remuneration paid in 2017 to the company's managers and other members of staff of the company and its (international) subsidiaries who are considered, in accordance with the pay policy applicable to the whole of the Dexia Group, as having a significant impact on the Group's risk profile on account of their position and/or the amount of their pay. This amount includes the Chief Executive Officer's pay and the Executive Vice-Presidents' pay awarded by Dexia exclusively in consideration of their mandate within the parent company.

Proposal to appoint Mr Thomas Courbe as a director

The ordinary shareholders' meeting decides, in accordance with the provisions of Article L.225-18 of the French Commercial Code, to appoint Mr Thomas Courbe, co-opted by the Board of Directors on 29 March 2018, of French nationality and domiciled at Rue de la Glacière, 75013 Paris, with effect as from the close of the shareholders' meeting, replacing Mr Corso Bavagnoli. The mandate of Thomas Courbe will end at the close of the ordinary shareholders' meeting to be held in 2021 and called on to rule on the financial statements for the financial year closed on 31 December 2020.

Proposition to appoint Mr Gilles Denoyel as a director

The ordinary shareholders' meeting decides, in accordance with the provisions of Article L.225-18 of the French Commercial Code, to appoint Mr Gilles Denoyel, of French nationality and domiciled at 42 Avenue Charles Floquet, 75007 Paris, with effect as from the close of the shareholders' meeting, replacing Mr Robert de Metz. The mandate of Gilles Denoyel will end at the close of the ordinary shareholders' meeting to be held in 2022 and called on to rule on the financial statements for the financial year closed on 31 December 2021.

Proposal to grant powers

The ordinary shareholders' meeting grants all powers to the bearer of an original, a copy or an extract of these minutes with a view to the fulfilment of any formalities pertaining to the lodging and publication of documents for which provision is made in the law.

Statutory Auditors' special report on regulated agreements and commitments

Shareholders' meeting held to approve the financial statements for the year ended 31 December 2017

To the shareholders,
In our capacity as Statutory Auditors of your company, we hereby report to you on regulated agreements and commitments.
It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of, as well as the reasons provided for, the agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, without commenting on their relevance or substance or identifying any undisclosed agreements or commitments. Under the provisions of article R.225-31 of the French Commercial Code (Code de commerce), it is the responsibility of the shareholders to determine whether the agreements and commitments are appropriate and should be approved.
Our role is also to provide you with the information stipulated in Article R.225-31 of the French Commercial Code relating to the implementation during the past year of agreements previously approved by the shareholders' meeting, if any.
We conducted the procedures we deemed necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (Compagnie Nationale des Commissaires aux Comptes) relating to this engagement. These procedures consisted in agreeing the information provided to us with the relevant source documents.

Agreements and commitments submitted to the approval of the shareholders' meeting

Pursuant to Article L.225-38 of the French Commercial Code, we were not informed of any new agreements and commitments submitted to the approval of the shareholders' meeting.

Agreements and commitments previously approved by shareholders' meeting

Pursuant to Article R.225-30 of the French Commercial Code, we have been informed that the following agreements and commitments, previously approved by shareholders' meetings of prior years, have remained in force during the year:

a) Agreements and commitments having an impact on 2017 financial statement

Agreement allowing DCL to use subsidiaries' receivables as collateral

Persons concerned:
Mr. Alain Clot, former director of DCL, Dexia Crediop and Dexia Sabadell, his term of office with DCL having terminated on December 31, 2013

In order to reduce DCL's financing needs, it was decided to mobilize the assets of DCL and its subsidiaries that are not currently utilized, in secured funding arrangements, as collateral for financing or issues guaranteed by the States. DCL mobilized the subsidiaries' assets under market conditions throughout 2017:

- As at December 31, 2017, the assets concerned totaled EUR 23.7 billion and comprised:
- EUR 23 billion of DCL receivables;
- EUR 664 million of DCL leasing subsidiary receivables.

These transactions were authorized by your Board of Directors on February 23, 2012 and have not resulted in the signature of any formal agreements

State guarantee agreement

Persons concerned:
Mr. Robert de Metz, director of both DCL and Dexia S.A. (hereafter "DSA"),
Mr. Karel De Boeck, director of both DCL and DSA,
Mr. Claude Piret, director of DCL and management board member of DSA,
Mr. Koenraad Van Loo, director of both DCL and DSA,
Mr. Philippe Rucheton, former director of both DCL and DSA, his term of office with DCL having terminated on December 31, 2013.

On December 28, 2012, the European Commission advised its agreement to the revised orderly resolution plan for the Dexia Group submitted by the Belgian, French and Luxembourg States on December 14, 2012. This approval resulted in the implementation of the arrangements for the tripartite guarantee granted by the Belgian, French and Luxembourg States, capped at EUR 85 billion, based on the following allocation key: 51.41% for Belgium, 45.59% for France and 3% for Luxembourg.
The guarantee fee on the outstanding debt issued will be calculated based on an annual rate of 5 basis points compared with 90 basis points previously under the temporary guarantee.

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In 2017, the cost of the guarantee for DCL amounted to EUR 37.9 millions.
Your Board of Directors authorized this agreement on December 19, 2012.

Guarantee agreement between DCL and Dexia Crediop

Persons concerned:
Mr. Alain Clot, former director of both DCL and Dexia Crediop, his term of office with DCL having terminated on 31 December 2013.

As part of the support for its subsidiary Dexia Crediop, DCL granted a first demand guarantee for EUR 75 million, expiring in 2023 at the earliest.
In accordance with the guarantee eligibility conditions set by the Bank of Italy, DCL's remuneration was set at 0.8%.
This agreement was approved by the shareholders' meeting of 7 May 2013, based on the Statutory Auditors' special report of Apil 2nd, 2013.
As at December 31, 2012, following the decrease in interest rates, exposure to the Terna counterparty mechanically increased, requiring an increase in the guarantee granted by DCL in order to comply with the large exposures limit set by the Italian regulator. An amendment to the initial agreement increasing the amount of the commitment to EUR 100 million was therefore signed, without the prior authorization of the Board of Directors, in order to react as quickly as possible to ensure compliance with regulatory ratios at the year-end. This amendment was approved by your shareholders' meeting of May 13, 2014.
This guarantee is drawn in full.
DCL recorded commission income of EUR 0.8 million in 2017.

b) Agreements and commitments having no impact on 2017 financial statement

Agreement for the sale of the Société de Financement Local (hereafter "SFIL") shares

Persons concerned:
Messrs. Philippe Rucheton and Alain Clot, former directors of both DCL and Dexia Municipal Agency (hereafter "DMA"), their terms of office with DCL having both terminated on December 31, 2013.

The agreement for the sale of SFIL shares by DCL to the French State, Caisse des Dépôts et Consignations and Banque Postale was signed on January 23, 2013 in the presence of DMA and SFIL, for the purpose of enabling the parties to take advantage of Articles 8 "Indemnification" and 9 "Other commitments of the parties" of said agreement.
This agreement was authorized by your Board of Directors on January 15, 2013 and had no impact in 2017.
DCL sold these shares for EUR 1 on January 28, 2013.

Agreement for the management of disputes relating to disputed loans

Persons concerned:
Messrs. Philippe Rucheton and Alain Clot, former directors of both DCL and DMA, their terms of office with DCL having both terminated on December 31, 2013.
On January 31, 2013, DMA, DCL and SFIL signed an agreement for the management of disputes relating to disputed loans. The purpose of this agreement is to establish the procedures for managing all judicial (other than criminal) and administrative proceedings relating to loans recorded on DMA's balance sheet on the date of sale of SFIL shares until maturity of all such loans.
This agreement was authorized by your Board of Directors on January 15, 2013 and had no impact in 2017.

Intra-group netting agreement between DCL, Dexia SA/NV (hereafter "DSA"), Banque Internationale à Luxembourg S.A. (hereafter "BIL"), Belfius Banque SA/NV (hereafter "Belfius") and Dexia Crediop SpA

Persons concerned:
- *Mr. Jean-Luc Dehaene, former director of DCL, DSA, BIL and DBB, his term of office with DCL having terminated on June 29, 2012,*
- *Mr. Pierre Mariani, former director of DCL, DSA, BIL and DBB, his term of office with DCL having terminated on August 2, 2012,*
- *Mr. Pascal Poupelle, former director of DCL and Crediop, his term of office with DCL having terminated on December 31, 2010,*
- *Mrs. Francine Swiggers, former director of DCL, DSA and DBB, her term of office with DCL having terminated on November 10, 2012.*

The Dexia Group Master Netting Agreement (hereafter "DGMNA") was signed on November 2, 2009 between DSA, BIL, Belfius, DCL and Dexia Crediop SpA.
The DGMNA enables the parties to the agreement to net amounts due under transactions governed by different agreements, such as in particular the ISDA Master Agreements or other financial instrument framework agreements (hereafter the "Principal Agreements"). The DGMNA primarily seeks to enable netting in the event of default by one of the parties and therefore only enables netting when the transactions governed by the Principal Agreements are accelerated, terminated, liquidated or cancelled (hereafter "Close Out").
When one of the parties is in default as defined by the DGMNA, each of the other parties not in default may choose to Close Out all the transactions governed by the Principal Agreements to which said non-defaulting party is party.
BIL and Belfius are no longer parties of the DGMNA since respectively January 29, 2014 and November 2, 2015.
This agreement was approved by the shareholders' meeting of May 19, 2015 based on the Statutory Auditors' special report of March 31, 2015.
This agreement had no impact on 2017 financial statement.

Courbevoie and Neuilly-sur-Seine, March 29, 2018

French Original signed by the Statutory Auditors

MAZARS	DELOITTE & ASSOCIÉS	
Claire GUEYDAN-BRUN	Jean-Vincent COUSTEL	Pascal COLIN

Consolidated Financial Statements as at 31 December 2017

Consolidated balance sheet

ASSETS (in EUR million)		**Note**	**31/12/16**	**31/12/17**
I.	Cash and central banks	2.0	4,222	10,721
II.	Financial assets at fair value through profit or loss	2.1 & 4.1	17,780	13,188
III.	Hedging derivatives	4.1	6,830	4,985
IV.	Financial assets available for sale	2.2	16,548	10,830
V.	Interbank loans and advances	2.3	7,109	5,995
VI.	Customer loans and advances	2.4	118,882	98,914
VII.	Fair value revaluation of portfolio hedges		1,750	1,314
VIII.	Financial assets held to maturity	2.5	1,918	1,750
IX.	Current tax assets	2.6	28	18
X.	Deferred tax assets	2.6	32	29
XI.	Accruals and other assets	2.7	36,880	30,547
XII.	Non current assets held for sale	4.5	0	2,105
XV.	Tangible fixed assets	2.8	15	4
XVI.	Intangible assets	2.9	32	34
TOTAL ASSETS			**212,026**	**180,434**

The notes on pages 78 to 142 are an integral part of these consolidated financial statements.

LIABILITIES (in EUR million)		Note	31/12/16	31/12/17
I.	Central banks	3.0	690	0
II.	Financial liabilities at fair value through profit or loss	3.1 & 4.1	18,675	14,192
III.	Hedging derivatives	4.1	33,796	27,858
IV.	Interbank borrowings and deposits	3.2	40,850	31,760
V.	Customer borrowings and deposits	3.3	10,778	6,426
VI.	Debt securities	3.4	98,524	89,654
VII.	Fair value revaluation of portfolio hedges		100	41
VIII.	Current tax liabilities	3.5	7	1
IX.	Deferred tax liabilities	3.5	58	23
X.	Accruals and other liabilities	3.6	4,434	3,931
XI.	Liabilities included in disposal groups held for sale	4.5	0	1,894
XIII.	Provisions	3.7	264	222
XIV.	Subordinated debt	3.8	482	160
	Total Liabilities		**208,658**	**176,162**
XV.	**Equity**	3.9	**3,368**	**4,272**
XVI.	Equity, Group share		2,997	3,918
XVII.	Capital stock and related reserves		2,465	2,465
XVIII.	Consolidated reserves		5,349	5,649
XIX.	Gains and losses directly recognised in equity		(5,259)	(3,955)
XX.	Net result of the period		442	(241)
XXI.	Minority interests		371	354
TOTAL LIABILITIES AND EQUITY			**212,026**	**180,434**

The notes on pages 78 to 142 are an integral part of these consolidated financial statements.

Consolidated statement of income

(in EUR million)		Note	31/12/2016	31/12/2017
I.	Interest income	5.1	10,127	9,933
II.	Interest expense	5.1	(9,818)	(9,696)
III.	Commission income	5.2	17	14
IV.	Commission expense	5.2	(17)	(18)
V.	Net gains (losses) on financial instruments at fair value though profit or loss	5.3	275	(84)
VI.	Net gains (losses) on financial assets available for sale	5.4	115	(35)
VII.	Other income	5.5	52	55
VIII.	Other expenses	5.6	(40)	(34)
IX.	**NET BANKING INCOME**		**711**	**135**
X.	Operating expenses	5.7	(395)	(387)
XI.	Depreciation, amortisation and impairment of tangible fixed assets and intangible assets	5.8	(15)	(14)
XII.	**GROSS OPERATING INCOME**		**301**	**(266)**
XIII.	Cost of risk	5.9	138	33
XIV.	**OPERATING INCOME**		**439**	**(233)**
XVI.	Net gains (losses) on other assets	5.10	56	2
XVIII.	**NET RESULT BEFORE TAX**		**495**	**(231)**
XIX.	Income tax	5.11	(54)	(9)
XXI.	**NET INCOME**		**441**	**(240)**
XXII.	Minority interests		(1)	1
XXIII.	**NET INCOME, GROUP SHARE**		**442**	**(241)**
	Earnings per share, Group share (in EUR)	5.12		
	Basic		1.75	(0.86)
	Diluted		1.75	(0.86)

The notes on pages 78 to 142 are an integral part of these consolidated financial statements.

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Consolidated statement of comprehensive income

(in EUR million)	31/12/2016			31/12/2017		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
NET INCOME			**441**			**(240)**
Elements reclassified or likely to be subsequently reclassified in net income						
Cumulative translation adjustments	35		35	(128)		(128)
Revaluation of financial assets available for sale or reclassified into loans and receivables or into held-to-maturity financial assets(1)	(305)	21	(284)	888	(2)	886
Revaluation of hedging derivatives	(195)		(195)	415		415
Other comprehensive income from disposal groups held for sale(2)				48	(1)	47
Elements that will never be reclassified or likely to be subsequently reclassified in net income						
Actuarial gains and losses on defined benefit plans	(3)		(3)	3		3
Changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk during the period				(75)	27	(48)
Amount of own credit risk reclassified upon derecognition from accumulated other comprehensive income to consolidated reserves for the period(3)				(17)		(17)
TOTAL UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY	**(468)**	**21**	**(447)**	**1,134**	**24**	**1,158**
NET RESULT AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY			**(6)**			**918**
of which, Group share			(4)			916
of which, Minority interests			(2)			2

(1) 31/12/2017: the variation is explained for EUR 640 million by the changes in fair value directly recognized in own funds mainly as a consequence of the tightening of the spreads on Italian, Portuguese and Polish sovereigns.
(2) Dexia Israel is presented as Non current assets held for sale, its gains and losses directly recognised in equity (EUR 29 million, group share and EUR 18 million, minority interests) are presented separately.
(3) Termination of Guaranteed Investment Contracts (GICs)

The notes on pages 78 to 142 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

(in EUR million)	Capital stock and related reserves				Consolidated reserves	Gains and losses dire	
	Capital	Related reserves	Treasury shares	Total		Change in fair value of financial assets available for sale or reclassified as loans and receivables or in assets held to maturity, net of taxes	Change in fair value of cash flow hedges, net of taxes
AS AT 31 DECEMBER 2015	**224**	**1,991**	**0**	**2,215**	**5,075**	**(3,835)**	**(1,224)**
Adjustment on opening equity[1]					(53)		79
AS AT 1 JANUARY 2016	**224**	**1,991**	**0**	**2,215**	**5,022**	**(3,835)**	**(1,145)**
Movements during the period							
Changes in capital[2]	55	195		250			
Appropriation of net income 2015					327		
Subtotal of shareholders' related movements	**55**	**195**		**250**	**327**		
Translation adjustments							
Changes in fair value of financial assets available for sale or reclassified as loans and advances or as held-to-maturity financial assets, through equity						(575)	
Changes in fair value of derivatives through equity							(181)
Changes in fair value of financial assets available for sale or reclassified as loans and advances or as held-to-maturity financial assets, through profit or loss						295	.
Changes in fair value of derivatives through profit or loss							(13)
Changes in actuarial gains and losses on defined benefit plans							
Subtotal of changes in gains and losses directly recognised in equity						**(280)**	**(194)**
Net income for the period							
AS AT 31 DECEMBER 2016	**279**	**2,186**	**0**	**2,465**	**5,349**	**(4,115)**	**(1,339)**
First application of IFRS 9 standard regarding own credit risk of financial liabilities at fair value[3]					(146)		
AS AT 1 JANUARY 2017 AFTER FIRST APPLICATION IFRS9 REGARDING OWN CREDIT RISK	**279**	**2,186**	**0**	**2,465**	**5,203**	**(4,115)**	**(1,339)**
Movements during the period							
Changes in capital							
Dividends							
Appropriation of net income 2016					442		
Subtotal of shareholders' related movements					**442**		
Translation adjustments							
Own credit risk reclassified upon derecognition from accumulated other comprehensive income to equity for the period					17		
Changes in fair value of financial assets available for sale or reclassified as loans and advances or as held-to-maturity financial assets, through equity						639	
Changes in fair value of derivatives through equity							341
Changes in fair value of financial assets available for sale or reclassified as loans and advances or as held-to-maturity financial assets, through profit or loss						245	
Changes in fair value of derivatives through profit or loss							76
Changes in actuarial gains and losses on defined benefit plans							
Changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk during the period							
Transfers[4]						(1)	
Subtotal of changes in gains and losses directly recognised in equity					**17**	**884**	**417**
Net income for the period							
Other variations[5]					(13)		
AS AT 31 DECEMBER 2017	**279**	**2,186**	**0**	**2,465**	**5,649**	**(3,231)**	**(922)**

(1) As a result of errors in the past, opening consolidated reserves have been reviewed for a net amount of EUR -53 million. This includes EUR -79 million, representing the amount of the cash flow hedge reserve related to transactions in the past and for which there isn't any longer justification for future transactions and also EUR +26 million, following a wrong representation in the past of a currency-denominated transaction that matured in 2016.
(2) the Extraordinary Shareholders' Meeting of 28 June 2016 decided a capital increase in cash by the issuance of 55.555.556 new shares maintaining the preferential susbscription rights of the shareholders.

The notes on pages 78 to 142 are an integral part of these consolidated financial statements.

ctly recognised in equity					Net income, group share	EQUITY, GROUP SHARE	Minority interests			EQUITY
Actuarial gains and losses on defined benefit plans	Own credit risk of financial liabilities designated at fair value through result, net of taxes	Translation adjustments	Change in unrealised or deferred gains and losses related to non current assets held for sale	Total			Capital and reserves	Gains and losses directly recognised in equity	Total	
(4)		**170**		**(4,893)**	**327**	**2,724**	**390**	**(17)**	**373**	**3,097**
				79		26				26
(4)		**170**		**(4,814)**	**327**	**2,750**	**390**	**(17)**	**373**	**3,123**
						250				250
					(327)	0				0
					(327)	**250**				**250**
		32		32		32		4	4	36
				(575)		(575)		(5)	(5)	(580)
				(181)		(181)				(181)
				295		295		1	1	296
				(13)		(13)				(13)
(3)				(3)		(3)		(1)	(1)	(4)
(3)		**32**		**(445)**		**(445)**		**(1)**	**(1)**	**(446)**
					442	442	(1)		(1)	441
(7)		**202**	**0**	**(5,259)**	**442**	**2,997**	**389**	**(18)**	**371**	**3,368**
	146			146		0				0
(7)	**146**	**202**	**0**	**(5,113)**	**442**	**2,997**	**389**	**(18)**	**371**	**3,368**
							4		4	4
							(33)		(33)	(33)
					(442)	0				0
					(442)	**0**	**(29)**		**(29)**	**(29)**
		(79)		(79)		(79)		(3)	(3)	(82)
	(17)			(17)		0				0
				639		639				639
				341		341		(3)	(3)	338
				245		245		1	1	246
				76		76				76
3				3		3		1	1	4
	(48)			(48)		(48)				(48)
		(28)	29	0		0				0
3	**(65)**	**(107)**	**29**	**1,161**		**1,178**		**(4)**	**(4)**	**1,174**
					(241)	(241)	1		1	(240)
		(3)		(3)		(16)	12	3	15	(1)
(4)	**81**	**92**	**29**	**(3,955)**	**(241)**	**3,918**	**373**	**(19)**	**354**	**4,272**

(3) As allowed by the standard IFRS9, since the 1st January 2017, Dexia recognises the own credit risk of its financial liabilities at fair value in gains and losses directly recognised in equity.
The total amount of own credit risk as at 31 December 2016 (USD -155 million) has been transferred in gains and losses directly recognised in equity.
(4) As Dexia Israel is presented as Non current assets held for sale, its gains and losses directly recognised in equity are presented separately.
(5) Impact of the reduction of Dexia's interest share in Dexia Israel

Consolidated cash flow statement

(in EUR million)	31/12/2016	31/12/2017
CASH FLOW FROM OPERATING ACTIVITIES		
Net income after income taxes	441	(240)
Adjustments for :		
- Depreciation, amortisation and other impairment	15	14
- Impairment losses (reversal impairment losses) on bonds , equities, loans and other assets	(240)	(53)
- Net (gains) or losses on investments	(56)	(4)
- Net increases (net decreases) in provisions	24	(108)
- Unrealised (gains) or losses	(211)	131
- Deferred taxes	(9)	(5)
Changes in operating assets and liabilities	(364)	6,959
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**(400)**	**6,694**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(19)	(15)
Sale of fixed assets	331	4
Sales of unconsolidated equity shares	48	16
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**360**	**5**
CASH FLOW FROM FINANCING ACTIVITIES		
Issuance of new shares[1]	250	4
Reimbursement of subordinated debts[2]	(5)	(282)
Dividend paid (minority interests)[3]		(33)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	**245**	**(311)**
NET CASH PROVIDED	**205**	**6,388**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**5,326**	**5,564**
Cash flow from operating activities	(400)	6,694
Cash flow from investing activities	360	5
Cash flow from financing activities	245	(311)
Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents	33	(120)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**5,564**	**11,832**
ADDITIONAL INFORMATION		
Income tax paid	(2)	(23)
Dividends received	13	2
Interest received	10,246	10,356
Interest paid	(10,064)	(10,236)

(1) 2016: Dexia Crédit Local; 2017: Dexia Israel (minority interests)
(2) We refer to note 3.8.b
(3) Dexia Israel

The notes on pages 78 to 142 are an integral part of these consolidated financial statements.

Cash and cash equivalents

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

a. Analysis by nature

(in EUR million)	31/12/2016	31/12/2017
Cash and central banks (note 2.0)	4,222	10,721
Interbank loans and advances (note 2.3)	1,342	399
Non current assets held for sale	0	712
TOTAL	**5,564**	**11,832**

b. Of which restricted cash

(in EUR million)	31/12/2016	31/12/2017
Mandatory reserves[1]	293	61
TOTAL	**293**	**61**

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

The notes on pages 78 to 142 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Accounting policies and valuation methods, ownership interest in subsidiaries and other entities, significant items included in the statement of income and post-balance-sheet events

1.1. Accounting policies and valuation methods

GENERAL INFORMATION

Dexia Crédit Local is a French limited company (société anonyme) with a Board of Directors. Its registered office is located at Tour CBX La Défense 2 - 1, Passerelle des Reflets, 92913 La Défense.

These consolidated financial statements were authorised for issue by the Board of Directors on 29 March 2018.

NOTES TO THE FINANCIAL STATEMENTS

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

The common used abbreviations below are:

- IASB: International Accounting Standards Board
- IFRS IC: IFRS Interpretations Committee (ex IFRIC)
- IFRS: International Financial Reporting Standards

1.1.1. BASIS OF ACCOUNTING

1.1.1.1. General

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

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

Dexia Crédit Local's financial statements have therefore been prepared "in accordance with all IFRSs as adopted by the EU" and endorsed by the EC up to 31 December 2017, including the conditions of application of interest rate portfolio hedging and the possibility to hedge core deposits.

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

The consolidated financial statements of Dexia Crédit Local 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 Crédit Local 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, Dexia Crédit Local'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 Dexia Crédit Local, 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(1). Considering the substantial reduction of Dexia Crédit Local'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, Dexia Crédit Local 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.

(1) 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.

• It is in particular exposed to the evolution of accounting and prudential rules.

• The financial characteristics of Dexia and Dexia Crédit Local since their entry in resolution do not allow them to ensure constant compliance with certain regulatory ratios over the resolution period.

Dexia and Dexia Crédit Local are also sensitive to the evolution of their 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 Dexia and Dexia Crédit Local's liquidity and solvency position, by increasing the amount of cash collateral paid by Dexia and Dexia Crédit Local to their derivatives counterparties 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 regulatory capital.

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

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

1.1.1.2. Accounting estimates and judgements

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

Judgements are made principally in the following areas:

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

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

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

• determination on whether Dexia Crédit Local controls the investee, including structured entities (IFRS 10) (see 1.1.3.);

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

• identification of the conditions allowing the application of hedge accounting (see 1.1.10., 1.1.11.);

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

• identification of impairment triggers (see 1.1.6.5.).

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

Estimates are principally made in the following areas:

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

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

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

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

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

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

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

1.1.2.1. IASB texts and IFRIC interpretations endorsed by the European Commission and applied as from 1 January 2017

• Amendment to IAS 7 "Disclosure Initiative". This amendment has an impact on the notes to Dexia Crédit Local's financial statements regarding financing activities (see note 3.8).

• Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses". This amendment does not have a material impact on Dexia Crédit Local's financial statements.

• Amendment to IFRS 12 "Disclosure of Interests in Other Entities" ("Annual Improvements 2014-2016"). This amendment does not impact the financial statements of Dexia Crédit Local.

1.1.2.2. IASB texts and IFRIC interpretations endorsed by the European Commission during the current year but not yet applicable as from 1 January 2017

• IFRS 16 "Leases". This standard, in replacement of the current IAS 17 standard and related interpretations, sets out a comprehensive model for the identification and treatment of lease arrangements.

IFRS 16 introduces significant changes to lessee accounting: it eliminates the distinction between operating and finance leases under IAS 17 and provides an accounting model, requiring lessees to recognise all leases on the balance sheet, subject to limited exceptions. So, if a contract is a lease as defined by the standard, the lessee recognises a right-of-use asset for the underlying asset and a lease liability which is measured at inception at the present value of lease payments discounted over the lease term. Subsequently, the right-of-use asset is depreciated usually on a straight-line basis over the lease term and impairment is recognised if necessary. The lease liability is recognised at amortised cost.

In contrast, IFRS 16 does not include significant changes to lessor accounting. IFRS 16 is effective as from 1 January 2019 and the impact on Dexia Crédit Local's financial statements is currently being assessed. Dexia Crédit Local launched its IFRS 16 project in 2017 and the initial impact assessment studies of the application of the standard have been performed. At this stage, no final decision has been taken regarding the transition approach to be applied.

• Clarification to IFRS 15 "Revenue from Contracts with Customers". This amendment is effective as from 1 January 2018 together with the new standard IFRS 15 (see 1.1.2.4.).

• Amendment to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts". This amendment is effective as from 1 January 2018 and will have no impact on the financial statements of Dexia Crédit Local as Dexia Crédit Local is not involved in insurance activities.

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

• IFRS 17 "Insurance Contracts" (issued by IASB in Mai 2017). This standard, in replacement of the current IFRS 4 "Insurance Contracts" standard, is effective as from 1 January 2021 and will have no impact on the financial statements of Dexia Crédit Local as Dexia Crédit Local is not involved in insurance activities.

• IFRIC 23 "Uncertainty over Income Tax Treatments" (issued by IASB in June 2017). This interpretation is effective as from 1 January 2019 and the impact on Dexia Crédit Local's financial statements is currently being assessed.

• Amendment to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued by IASB in October 2017). This amendment is effective as from 1 January 2019 and will have no impact on the financial statements of Dexia Crédit Local.

• Amendment to IFRS 9 "Prepayment Features with Negative Compensation" (issued by IASB in October 2017). This amendment address the case of instruments incorporating prepayment features with negative compensation and aims to clarify the conditions allowing instruments to be measured at amortised cost or fair value through other comprehensive income. This amendment is effective as from 1 January 2019 with earlier application permitted after its adoption by the European Commission and the impact on Dexia Crédit Local's financial statements is presented in the paragraph 1.1.2.5.

• Annual Improvements 2015-2017 cycle (issued by IASB in December 2017), which are a collection of amendments to existing IFRS and are effective as from 1 January 2019. Dexia Crédit Local does not expect these amendments to have a material impact on its financial statements as those amendments are related to minor adjustments of some IFRS standards.

1.1.2.4. New standard IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 "Revenue from Contracts with Customers" establishes the principles for accounting for revenue arising from contracts with customers. This standard is effective as from 1 January 2018. Dexia Crédit Local has elected to adopt IFRS 15 using the retrospective approach under which transitional adjustments will be recognized in retained earnings on the date of initial application of the standard (modified retrospective approach).

Business lines where the impact of the new standard is expected to be more significant include asset management and trade execution and broker services. As of today, Dexia Crédit Local does not have any activities in these business lines. Moreover, the part of revenue included in the scope of IFRS 15 is not material. Indeed, major part of revenues collected by Dexia Crédit Local follows the accounting treatment prescribed by others standards (particularly "IFRS 9 Financial instruments"). Therefore, Dexia Crédit Local does not expect IFRS 15 to have a material impact on its financial statements.

1.1.2.5. New standard IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" was issued by IASB in July 2014 and adopted by the European Union on 22 November 2016. This standard, that is mandatorily effective for periods beginning on or after 1 January 2018, brings together three following phases to replace IAS 39 "Financial Instruments: Recognition and Measurement": classification and measurement, impairment and hedge accounting. Macro hedge accounting is addressed as a separate project by the IASB.

Changes introduced by IFRS 9 include:
- an approach for the classification and measurement of financial assets, which is driven by the business model in which an asset is held and its contractual cash flow characteristics;
- a single forward-looking model for the impairment based on expected credit losses;
- a substantially-reformed approach to hedge accounting.

In addition, IFRS 9 amends IFRS 7 "Financial Instruments: Disclosures" requiring more disclosed information about financial instruments.

Classification and measurement

Financial assets

Under the new classification model, financial assets are measured either at amortised cost, fair value through equity (other comprehensive income) or fair value through profit or loss. The classification of financial assets is based on both: the analysis of the contractual cash flow characteristics of the assets and the business model for managing these assets.
If the contractual terms of the financial asset do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding, the asset does not qualify as a "basic" instrument as defined by the standard and so will be measured at fair value through profit or loss. This applies to both debt instruments and equity instruments. On the other hand, the assets which are considered as "basic" will be measured at amortised cost or at fair value through other comprehensive income based on the business model for managing these assets.
A financial asset will be measured at amortised cost If the contractual terms of the asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding and if the asset is held within a business model whose objective is to hold the financial assets to collect the contractual cash flows.
A financial asset must be measured at fair value through other comprehensive income If the contractual terms of the asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding and if the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
The financial assets considered as "basic" but not classified into any of these two business models are measured at fair value through profit or loss. This is the case for example for the financial assets held in a trading portfolio.
Under certain conditions, in order to eliminate or reduce a measurement or recognition inconsistency ("accounting mismatch"), an entity can elect to designate a "basic" financial asset as measured at fair value through profit or loss.
On the other hand, for equity investments not held in a trading portfolio an entity can make an irrevocable election at initial recognition to present future fair value changes in equity (other comprehensive income) (without recycling to profit or loss In the event of disposal). These equity investments would otherwise be measured at fair value through profit or loss. Assets classified into this category are not subject to impairment.
The business model reflects how a group of debt instruments is managed based on objectives determined by the key man-

agement personnel of Dexia Crédit Local. A business model is a matter of fact and typically observable and is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective and depending on how cash flows are generated (collecting contractual cash flows and/or selling the assets).
The contractual terms of the asset that give rise to payments of solely principal and interest represent primarily compensation for the time value of money and credit risk and can also include consideration for other risks (liquidity risk) and costs (administrative costs) associated with holding the financial asset for a period of time, as well as a profit margin.
Derivative instruments continue to be measured at fair value through profit or loss. If they are designated as hedging instruments, they are measured based on the type of hedging relationship.

Financial liabilities

Under IFRS 9, financial liabilities are measured either at amortised cost or at fair value through profit or loss or they can be designated at fair value through profit or loss using the fair value option in the same way as under IAS 39.
The main change introduced by IFRS 9 includes the recognition of changes in the fair value attributable to own credit risk in equity for financial liabilities designated at fair value through profit or loss, without recycling to profit or loss.

Impairment

The IFRS 9 standard introduces a new impairment model of financial assets based on expected credit losses. This new impairment model applies to debt instruments (loans or bonds) measured at amortized cost or debt instruments measured at fair value through OCI as well as lease receivables and trade receivables. This impairment model also applies to Dexia Crédit Local's off balance sheet undrawn loan commitments and financial guarantee given. For the latter mentioned, expected credit losses are booked on the liability side of Dexia Crédit Local's Balance sheet.

The ECL model constitutes a change from the guidance in IAS 39 based on incurred losses.

In this model, each financial instrument (except assets that are purchased or originated in default) is allocated amongst 3 buckets depending of the evolution of credit risk since initial recognition.

- Bucket 1: Financial instruments that have not deteriorated significantly in credit quality since initial recognition
- Bucket 2: Financial instruments that have deteriorated significantly in credit quality since initial recognition but that do not have objective evidence of a credit loss
- Bucket 3: Financial assets that have objective evidence of impairment at the reporting date

The amount of loss allowance and the calculation of interest revenue based on the Effective Interest Rate (EIR) method depend on the bucket in which the financial instrument is allocated.
When the financial instrument is in Bucket 1, the amount of loss allowance is equal to 12-month expected credit losses, while in bucket 2 and 3, the amount of loss allowance is equal to lifetime expected credit losses.
Interest revenue for financial assets allocated in Bucket 1 or 2 are calculated by applying the EIR to the gross carrying amount, while for financial assets in bucket 3, EIR applied to amortised cost.
For purchased or originated credit impaired financial assets, the amount of loss allowance recognized in profit or loss is the cumulative changes in lifetime expected credit losses since initial recognition. The amount of favorable change in lifetime expected credit losses is recognized in profit or loss as an impairment gain.
As the definition of default is not precisely provided by the IFRS 9 standard, Dexia Crédit Local choose to use the prudential definition provided by the regulation No 575/2013 (CRR) of the European Union, consistently with the definition used for internal credit risk management. According to Article 178 of this regulation, a counterparty shall be considered as defaulted when:

- the obligor is unlikely to pay its credit obligations towards Dexia Crédit Local, or any of its subsidiaries in full, without recourse by the institution to actions such as realizing security
- the obligor is past due more than 90 days on any material credit obligation.

Following the European Central Bank (ECB) request for adopting the materiality threshold of the European Banking Authority (EBA) for past dues, Dexia Crédit Local's threshold is a fixed amount established at EUR 500 as from 1 January 2015. This threshold takes into account nominal past due, past due on interest or late payment interest (including penalties) or commissions. A past due is defined as a payment that has become due but has not been made according to the terms of the agreement. Thus, two debts due on the same date but not paid will therefore constitute two separate past due.
The notion of default is defined at the counterparty level. This means that if one of the criteria allowing the identification of a default is observed only on a part of the exposures of the counterparty, then the counterparty is considered in default for all its exposures.
Dexia Crédit Local is not planning to use the simplified approach allowed by IFRS 9 for trade receivables (that have a significant financing component) or lease receivables.

Hedge accounting

The new hedge accounting model of IFRS 9 aims to more closely align accounting treatment with risk management by reinforcing certain principles and by removing certain rules which were considered as too prescriptive.
IFRS 9 does not fundamentally change the current types of hedging relationships and the requirements to measure and recognise ineffectiveness. Three hedge accounting models – fair value hedge, cash flow hedge and net investment hedge – are retained.
In line with the objectives, the main changes introduced by the standard include the following:

- additional exposures may be designated as hedged items;
- increased eligibility of hedging instruments and change in accounting treatment for the time value of purchased options considered as a cost of hedging;
- introduction of a new alternative to hedge accounting: fair value through profit or loss option designation for credit exposures managed with credit derivatives;
- more flexible effectiveness criteria;
- extensive additional disclosures to be provided.

While awaiting the future standard on macro hedging, IFRS 9 permits to keep applying the current hedge accounting requirements (IAS 39) for all hedge relationships or only for macro-hedge relationships. It is also possible, starting from 2018, to apply the IFRS 9 standard to all hedge relationships.

The pros and cons of application of the new approach related to hedge accounting have been assessed. Waiting for the future IASB standards on Macro-hedge, Dexia Crédit Local decided to maintain the requirements of IAS 39 for all the hedge relationships (micro and macro-hedge).

On-going transition project and impacts

The impacts of IFRS 9 on the financial statements and the financial and prudential own funds of Dexia Crédit Local are being finalised and audited. Being aware that IFRS 9 is a major issue for banking institutions, Dexia Crédit Local launched its IFRS 9 project in the first quarter of 2015. The project was co-lead by the Chief Financial Officer and the Chief Risk Officer. The diagnostic and impact assessment studies of the application of the standard have been performed:

On the first phase of the standard, Dexia Crédit Local has analysed the characteristics of all its financial assets in order to determine the classification and measurement method;

Based on the analysis of products characteristics, most of financial assets held by Dexia Crédit Local are considered as SPPI (Solely Payment of Principal and Interest) instruments and so eligible to the amortised cost. These assets are mainly vanilla floating or fixed rate loans or securities. A part of these loans or securities implies, in case of early redemption, the payment or reception by the borrower of an indemnity which depends on the evolution of the level of market interest rates. These early redemption fees, which are symmetrical, have been discussed at the IASB level, regarding the consistency of this feature with the SPPI conditions. On 12 October 2017, the IASB issued an amendment to IFRS 9 "Prepayment features with negative compensation". This amendment clarifies the conditions allowing these instruments to be measured at amortised cost or fair value through other comprehensive income and will be effective as from 1 January 2019 with earlier application permitted. This amendment has not been yet adopted by the European Commission. In order to ensure the continuity of the accounting principles applied for the IFRS 9 adoption as of 1 January 2018 and subsequently, Dexia Crédit Local decided to early apply the requirements of this amendment for the impact determination of the IFRS 9 first time application on its financial statements.
Some structured loans to local public entities with a contractual interest rate based on a formula with leverage effect, indexed on currency exchange rates or long term interest rate index (such as "constant maturity swap" rates) will be classified at Fair Value Through Profit or Loss.
Most of equity instruments or mutual funds units will be classified at fair value through profit or losses. However, some equity instruments may, on a case by case basis, be classified at fair value through equity (but without transfer into Profit or Losses upon sales).
For financial assets considered as SPPI, the classification at amortised cost or at Fair Value Through equity depends on Dexia Crédit Local's holding strategy.
According to the Orderly Resolution Plan, approved by the European Commission in 2012, Dexia Crédit Local no longer has any commercial activities and its residual assets are being managed in run-off without accelerated sale of the whole assets of the Group in order to protect Dexia Crédit Local's capital base. Consistently with this Orderly Resolution Plan, Dexia Crédit Local will therefore collect the cash flows over the life of a major part of the assets which will be measured at amortised cost. Another part of Dexia Crédit Local's financial assets, isolated in dedicated portfolios, is held for sale when market opportunities will appear. The trade-off between these two portfolios was subject to strategic decisions made by Dexia Crédit Local during 2017. Apart from derivatives, the trading portfolio of Dexia Crédit Local which is already measured at fair value through profit or loss will remain limited.

On the second phase of the standard, Dexia Crédit Local has developed a new impairment model;

As stated above, the financial assets are allocated amongst 3 buckets based on default of counterparties, as defined by the prudential regulation and consistently with the definition used for internal credit risk management.
The classification in bucket 1 or 2 depends on:

- a quantitative test which assesses the deterioration of credit risk since the initial accounting recognition and whether this deterioration is significant. This test is based on the probability of default evolutions between the exposure origination date and the current date of reporting;
- a qualitative test including the review of watchlist[1] exposures, the identification of forborn[2] exposures and also the analysis of sensible economic sectors. If one of these two tests is met, the exposure is classified in bucket 2, else in bucket 1.

The estimation of loss allowance allocated to each exposure is based on an expected loss model, on a 12-month horizon for bucket 1 and a life-time horizon for bucket 2 and 3.
The expected losses are based on the Exposure at Default, the Probability of Default and the Loss Given Default point in time and forward looking, which take into account assumptions on macroeconomic forecast at medium term. These expected losses also take into account the uncertainty related to these macro-economic assumptions.
Dexia Crédit Local also reviewed new disclosure requirements in the consolidated financial statements.
In 2017, Dexia Crédit Local continued working on the operational implementation of accounting principles. The management and accounting information systems and internal process were adapted in order to comply with the new requirements for internal and external reporting related to IFRS 9. These modifications went through several phases of testing during 2017 for the implementation as from 1st January 2018. The reporting on the status of the IFRS 9 project was done on regular basis to the Management Board and also to the Board of Directors and the Audit Committee.

First Time application options

As permitted by IFRS 9, Dexia Crédit Local decided to early apply the requirements related to the presentation of gains or losses related to the credit risk on financial liabilities designated as at fair value through profit or loss on the 1st January 2017 without application of other IFRS 9 requirements.
As permitted by IFRS 9, Dexia Crédit Local decided not to restate, in the 2018 annual report, comparative information under IFRS 9 but to maintain comparative information under IAS 39.

(1) The Watch-list Committee supervises assets considered "sensitive", placed under watch, and decides on the amount of impairments set aside;
(2) The definition of forbearance groups together facilities granted by banks to counterparties experiencing or about to experience financial difficulties in dealing with their commitments (facilities which banks would not otherwise have granted).

First time application impacts on the financial statements of Dexia Crédit Local

The impact of the adjustments related to the new IFRS 9 classification and measurements will be recognised on 1st January 2018, directly in equity of Dexia Crédit Local on a retrospective basis, as if the assets were classified as such from inception.

Dexia Crédit Local expects that the first application of IFRS 9 will have the following impacts on its own funds on 1st January 2018 (listed in the order of importance):

• Reclassification of Available For Sale assets into amortised cost, involving a significant positive impact related to the release of unrealised gains or losses recognized in equity under IAS 39 (including "frozen AFS reserve" related to previous reclassification under IAS 39 from securities Available For Sale or Held For Trading into Held To Maturity or Loans and Receivables categories that are retrospectively cancelled upon transition to IFRS 9). These reserves amount to EUR -3.3 billion (Group share) as at 31 December 2017;

• Reclassification of debt securities and loans held for sale when market opportunities will appear from amortised cost category (Loans and Receivables under IAS 39) to Fair Value Through Equity category (IFRS 9) which lead to the recognition of unrealised gains or losses in own funds. The expected impact is negative since the credit spreads have widened from inception.

• Reclassification of debt securities and structured loans, mainly from the amortised cost to the Fair Value Through P&L category, because of their characteristics. The impact of the fair valuation of these assets is negative since the credit spreads have widened from inception, the interest rate risk being hedge besides.

• Recognition of additional provisions for credit risk. No major modification is expected for assets in bucket 3 since the methodology for specific provision is very close to the current one under IAS 39. Provisions on asset in bucket 1 should be limited since the Expected Loss is estimated on a 12-month horizon. However, the increase of provisions will be more significant for assets in bucket 2 which include financial instruments that have been deteriorated significantly in credit quality since initial recognition completed with an additional backstop based on "Watchlist" and/or "forborn" assets. These assets will be subject to life-time expected loss which is higher than bucket 1 expected loss. To be noted that Dexia Crédit Local's portfolio remains at high credit quality level and is mainly composed of public sector counterparts. As a consequence, the increase in provision should be relatively moderate in the order of EUR 0.2 billion.

Globally, the application of IFRS 9 will have a net positive impact of EUR 2.8 billion on Dexia Crédit Local own funds on 1st January 2018.

Other elements:

• As from 1st January 2017, with application on a retrospective basis, the variation of own credit risk related to liabilities designated by option at Fair Value Through P&L will be recognised directly in equity and no more in profit or loss. In case of early redemption of such liabilities, an analysis is performed to identify and explain the difference between the redemption amount and the carrying amount. The part accumulated in equity related to the change in own credit risk of a financial liability is reclassified from "gains and losses directly recognized in equity" to "consolidated reserve" and not to profit or loss. If the treatment of liabilities designated as at fair value through profit or loss would create an accounting mismatch in profit or loss, all changes in the fair value are presented in profit or loss.

The impact of early application of this provision amounts to EUR 146 million (Group share) and has been directly recognized in Dexia Crédit Local own funds on 1st January 2017.

• Some derivatives which are hedging financial assets that will be classified at fair Value Through P&L will not be eligible as hedging instruments contrary to the current treatment under IAS 39 and will be classified as Held for trading derivatives under IFRS 9. The volatility related to the interest risk of these assets will be offset by the change in fair value of the economic hedging derivatives but the volatility related to credit risk will remain.

1.1.2.6. Changes in presentation of consolidated financial statements of Dexia Crédit Local

As from 1 January 2017 and as permitted by IFRS 9, Dexia Crédit Local early applies the treatment related to changes in the fair value attributable to own credit risk on financial liabilities designated as at fair value through profit or loss (see 1.1.2.5. and 1.1.6.3.4.). Following a change in the treatment, Dexia Crédit Local separately identifies the impacts in "Consolidated statement of comprehensive income" and in "Consolidated statement of changes in equity".

The consolidated financial statements of Dexia Crédit Local have been prepared in accordance with the ANC (Autorité des Normes Comptables, Authority for Accounting Standards) presentation. Since 31 December 2013, they have been compliant with ANC Recommendation 2013-04 issued on 7 November 2013 "on the presentation of the consolidated financial statements of banks prepared in accordance with International Financial Reporting Standards".

1.1.3. CONSOLIDATION

1.1.3.1. Subsidiaries and structured entities

Subsidiaries are those entities over whose Dexia Crédit Local may exercise control. Entities controlled by the Group are fully consolidated.

Under IFRS 10 "Consolidated Financial Statements", the Group controls an entity if and only if the Group has all the following:

• power over the entity;

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

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

Dexia Crédit Local has power over an investee when it has existing rights that give it the current ability to direct the relevant activities, ie the activities that significantly affect the investee's returns.

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

In other cases, especially for structured entities, the assessment of control is more complex and may require greater use of judgment considering other factors. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, Dexia Crédit Local is particularly involved in securitisation vehicles and investment funds.

The ability to direct the relevant activities is assessed by considering: the purpose and design of the investee; managing financial assets during their life, including the management upon default; selecting, acquiring, disposing or replacing of assets; appointing and remunerating an investee's key management personnel and terminating their employment. Dexia

Crédit Local determines whether it is exposed, or has rights, to variable returns by considering: dividends and other distributions of economic benefits; exposure to loss through instruments that absorbs variability (including CDSs as sellers of protection or junior tranches designed to absorb the first losses and paid on credit risk exposure basis); remuneration for servicing an investee's assets or liabilities; returns that are not available to other interest holders.

An investor controls an investee when it not only has power over investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the investor's returns from its involvement with the investee. Thus, an investor with decision-making rights shall determine whether it is a principal or an agent considering all the factors below:

- the scope of its decision-making authority over the investee;
- the rights held by other parties (including right to remove the decision maker);
- the remuneration to which it is entitled in accordance with the remuneration agreements;
- the decision maker's exposure to variability of returns from other interests that it holds in the investee.

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

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

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

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

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

1.1.3.2. Associates and joint venture.

Associates are investments in which Dexia Crédit Local has significant influence, but does not exercise control. This is usually the case, when Dexia Crédit Local owns between 20% and 50% of the voting rights.

A joint venture is a contractual arrangement of which two or more parties undertake a jointly controlled economic activity. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement and are required to agree unanimously to decisions about the relevant activities of the arrangement.

Dexia Crédit Local has no equity method investments.

1.1.4. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In accordance with IAS 32, financial assets and financial liabilities are offset (and consequently, the net amount only is reported) when Dexia Crédit Local has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Since 31 December 2013, the derivative instruments transacted by Dexia Crédit Local with clearing houses that meet the two criteria required by IAS 32 have been offset on the balance sheet.

Offsetting effects are disclosed in the note 4.3. "Offsetting financial assets and financial liabilities".

1.1.5. FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

1.1.5.1. Foreign currency translation

On consolidation, the statements of income and cash flow statements of foreign entities that have a functional currency different from Dexia Crédit Local's presentation currency are translated into Dexia Crédit Local's presentation currency (EUR) at the average exchange rates for the year (annual reporting) or the period (interim reporting) and their assets and liabilities are translated at the respective year-end or quarter-end exchange rates.

Exchange differences arising from the translation of the net investment in foreign subsidiaries, associates, joint ventures and of borrowings and other currency instruments designated as hedges of such investments, are recorded as a cumulative translation adjustment within shareholders' equity. On disposal of a foreign entity accompanied by a loss of control, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities in the functional currency of the foreign entity and are translated at the closing rate.

1.1.5.2. Foreign currency transactions

For individual Dexia Crédit Local entities, foreign currency transactions are accounted for using the exchange rate at the date of the transaction. Outstanding balances denominated in foreign currencies at period or year-end are translated at period or year-end exchange rates for monetary items and non-monetary items carried at fair value. Historical rates are used for non-monetary items carried at cost. The resulting exchange differences from monetary items are recorded in the consolidated income statement; except for the foreign exchange impact related to fair value adjustments on available-for-sale bonds, which is recorded under "Other comprehensive income". For non-monetary items carried at fair value, the exchange differences are governed by the same accounting treatment as for fair value adjustments.

1.1.6. FINANCIAL ASSETS AND LIABILITIES

Management uses judgement on the criteria mentioned in the paragraphs below in determining the appropriate classification of its investments at initial recognition. However, under certain conditions, financial assets could subsequently be reclassified.

1.1.6.1. Recognition and derecognition of financial instruments

Dexia Crédit Local recognises and derecognises financial assets held for trading, that require delivery within the established timeframes (a "regular way" purchase or sale), on trade date. For these financial assets, Dexia Crédit Local recognises in the income statement, any unrealised gains or losses arising from revaluing the contract to fair value at the reporting date. Dexia Crédit Local recognises these unrealised gains and losses under "Net gains (losses) on financial instruments at fair value through profit or loss".

All other "regular way" purchases and sales of financial assets not held for trading are recognised and derecognised on the settlement date, which is the date of delivery to or by Dexia Crédit Local.

Dexia Crédit Local derecognises all or part of a financial asset if the contractual rights to the cash flows from the financial asset expire or if these contractual rights to receive the cash flows of the financial asset or substantially all of the risks and rewards of ownership are transferred. In this case, any rights or obligations created or retained at the time of transfer are recognised separately as assets and liabilities.

Dexia Crédit Local recognises the financial liabilities on its balance sheet when it becomes party to the contractual provisions of the instrument. Dexia Crédit Local derecognises financial liabilities only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

1.1.6.2. Loans and advances due from banks and customers

Dexia Crédit Local classifies non-derivative financial assets with fixed or determinable payments that are not quoted on an active market into this category (labelled by IAS 39 as Loans and Receivables – L&R) except for:

- those that Dexia Crédit Local intends to sell immediately or in the near term, which are classified as held for trading, and those that Dexia Crédit Local, upon initial recognition, designates as being at fair value through profit or loss;
- those that Dexia Crédit Local, upon initial recognition, designates as available-for-sale; or
- those for which Dexia Crédit Local may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.

Dexia Crédit Local recognises interest-bearing loans and advances initially at fair value plus transaction costs and subsequently at amortised cost, less any allowance for impairment. Interest is calculated using the effective interest rate method and recognised in net interest income.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

1.1.6.3. Financial instruments measured at fair value through profit or loss

1.1.6.3.1. Loans and securities held for trading

Dexia Crédit Local reports loans held for trading purposes in the line "Financial assets at fair value through profit or loss" at their fair value, with unrealised gains and losses recorded in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest income is accrued using the effective interest rate method and is recognised in net interest income.

Trading securities are securities acquired for generating a profit from short-term fluctuations in price or dealer's margins, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Dexia Crédit Local initially recognises trading securities at fair value and subsequently re-measures them at fair value. All realised and unrealised gains and losses are recorded under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest earned is recognised in net interest income, and dividends received under "Net gains (losses) on financial instruments at fair value through profit or loss".

1.1.6.3.2. Liabilities held for trading

Liabilities held for trading are subject to the same accounting rules as those for "loans and securities held for trading".

1.1.6.3.3. Loans and securities designated at fair value through profit or loss (FVO)

In some cases and if appropriately documented, Dexia Crédit Local can designate a financial asset, a financial liability or a group of financial instruments as "at fair value through profit or loss" where:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- an instrument contains a non-closely related embedded derivative:

- that significantly modifies the cash flows that otherwise would be required by the contract; or
- for which it is not clear, with little or no analysis, that the separation of the embedded derivative is prohibited.

Unrealised gains and losses on these assets are recorded in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest is recognised in net interest income.

1.1.6.3.4. Liabilities designated at fair value through profit or loss (FVO)

For subsequent measurement, based on the IFRS 9 requirements early applied by Dexia Crédit Local as from 1 January 2017 (see 1.1.2.5.), Dexia Crédit Local recognises unrealised gains or losses on financial liabilities designated as at fair value through profit or loss as follows:

- changes in the fair value attributable to own credit risk are recorded in equity under the dedicated heading "Changes in fair value of financial liabilities designated at Fair Value Though Profit or Loss attributable to own credit risk" within "Gains and losses directly recognized in equity";
- the remaining amount of change in the fair value is presented in profit or loss under "Net gains (losses) on financial instruments at fair value through profit or loss".

When liabilities designated as at fair value through profit or loss are derecognized, amounts in equity relating to own credit risk are not recycled to profit or loss. Dexia Crédit Local reclassifies these realised amounts within equity and presents them under the heading "Consolidated reserves".

However, if the treatment of liabilities designated as at fair value through profit or loss as described above would create an accounting mismatch in profit or loss, all changes in the fair value are presented by Dexia Crédit Local in profit or loss.

1.1.6.3.5. Derivatives – Trading portfolio

When a derivative is not designated in a hedge relationship, it is deemed to be held for trading. The main types of derivatives are the currency and the interest-rate derivatives.
Dexia Crédit Local, which also makes use of credit derivatives and equity derivatives, initially and subsequently measures all derivatives at the fair value obtained from quoted market prices, discounted cash flow models or pricing models, as appropriate.
All changes in fair value are recognised in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest is recognised in net interest income.
Dexia Crédit Local reports derivatives as assets when fair value is positive and as liabilities when fair value is negative.
Dexia Crédit Local treats certain derivatives embedded in other financial instruments as separate derivatives:

- when their risks and characteristics are not closely related to those of the host contract; and
- when the hybrid contract is not carried at fair value with unrealised gains and losses reported in the income statement.

Dexia Crédit Local reports embedded derivatives which were separated under the same heading as the host contract.

1.1.6.4. Financial investments

1.1.6.4.1. Held-to-maturity

Dexia Crédit Local classifies the interest-bearing financial assets with fixed maturity quoted in an active market as "Financial assets held to maturity" (HTM) when management has both the intent and the ability to hold the assets to maturity.
Dexia Crédit Local recognises such interest-bearing financial assets initially at fair value plus transaction costs and subsequently at amortised cost, less any allowance for impairment. Interest is recognised based on the effective interest rate method and recorded in net interest income.

1.1.6.4.2. Available-for-sale

Dexia Crédit Local classifies financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, as "Financial assets available for sale" (AFS).
Dexia Crédit Local recognises financial assets initially at fair value (including transaction costs). Interest is recognised based on the effective interest-rate method and recorded in net interest income. Dexia Crédit Local recognises dividend income from variable-income securities under "Net gains (losses) on financial assets available for sale".
Dexia Crédit Local subsequently re-measures available-for-sale financial assets at fair value (see 1.1.7. Fair value of financial instruments). Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised within equity under the heading "Unrealised or deferred gains and losses".
When assets are disposed of, or impaired, Dexia Crédit Local recycles the related accumulated fair value adjustments in the income statement in "Net gains (losses) on financial assets available for sale". However, the gains and losses on impaired debt instruments are recognised in "Cost of risk".

1.1.6.5. Impairments on financial assets

Dexia Crédit Local records allowances for impairment losses when there is objective evidence that a financial asset or group of financial assets is impaired as a result of one or more events occurring after initial recognition and evidencing (a) a decline in the expected cash flows and (b) the impact on the estimated future cash flows that can be reliably estimated.

1.1.6.5.1. Financial assets valued at amortised cost

Dexia Crédit Local first assesses whether objective evidence of impairment exists individually for financial assets. If no such evidence exists, the financial assets is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.
There is objective evidence of individual impairment when a counterparty has or is likely to have difficulties meeting its commitments. An asset is also likely to be impaired if it is past due for more than three months.
Collective impairments are recognised if an incurred risk is identified on a sector and on portfolios of assets considered sensitive and placed on watch.

Determination of the impairment

- Specific impairments – If there is objective evidence that loans or other receivables, or financial assets classified as held-to-maturity are impaired, the amount of the impairment on specifically identified assets is calculated as the difference between the carrying amount and the estimated recoverable amount, being the present value of expected cash flows, including judgements on the amounts recoverable from guarantees and collateral, discounted at the financial instrument's original effective interest rate (except for reclassified assets, see below). When an asset is assessed as being impaired, it is excluded from the portfolio on which a collective impairment is calculated. Assets with small balances that share similar risk characteristics follow the principles as described below.
- Collective impairments – Collective impairments cover losses incurred where there is no specific impairment but objective evidence of losses in segments of the portfolio or other lending-related commitments at the balance-sheet date. Dexia Crédit Local estimates them based upon the historical patterns of losses in each segment, the credit ratings allocated to the borrowers and reflecting the current economic environment in which the borrowers operate. Dexia Crédit Local develops for that purpose credit-risk models using an approach that combines appropriate default probabilities and loss-given defaults that are subject to regular back-testing and are based on Basel II data and risk models, consistently with the "incurred-loss" model. Assumptions are made to define the way inherent losses are modelled and to determine the required parameters, based on historical experience.

Accounting treatment of the impairment

Dexia Crédit Local recognises changes in the amount of impairment losses in the income statement in "Cost of risk". The impairment losses are reversed through the income statement if the increase in fair value relates objectively to an event occurring after the impairment was recognised.
When an asset is determined by management to be uncollectable, the outstanding specific impairment is reversed via the income statement under the heading "Cost of risk" and the net loss is recorded under the same heading. Subsequent recoveries are also accounted for under this heading.

1.1.6.5.2. Reclassified financial assets

Dexia Crédit Local can reclassify financial assets initially classified as "available-for-sale" or in rare circumstances "held for trading" into "held-to-maturity" or "loans and receivables" categories. Thus, a reclassification to "loans and receivables" is possible when assets "available-for-sale" are not any longer

quoted in active markets and when Dexia Crédit Local has the intent and the ability to hold the asset in the foreseeable future or to maturity.
A reclassification to "held-to-maturity" is possible as a result of a change in Dexia Crédit Local's intention regarding "available-for-sale" assets, when Dexia Crédit Local has the intention and ability to hold these financial assets until maturity and provided that these assets are non-derivative assets with fixed or determinable payments and fixed maturity.
In such circumstances, the fair value of "available-for-sale" assets at the date of transfer becomes the new amortised cost of those financial assets. Any fair value adjustment previously recognised under "Other comprehensive income" is "frozen" and amortised on the residual maturity of the instrument. Regarding the calculation of impairment, reclassified financial assets are governed by the same estimates, judgements and accounting principles as financial assets initially valued at amortised cost. If there is objective evidence that reclassified financial assets are impaired, Dexia Crédit Local calculates the amount of the impairment on reclassified assets as the difference between the net carrying amount of the asset and the net present value of the expected cash-flows discounted at the recalculated effective yield at the time of reclassification. Any unamortized part of the frozen AFS reserve is recycled in the income statement and reported under the heading "Cost of risk" as a part of the impairment.

1.1.6.5.3. Available-for-sale assets

Dexia Crédit Local recognises the impairment of available-for-sale assets on an individual basis if there is objective evidence of impairment as a result of one or more events occurring after initial recognition.

Determination of the impairment

• Equities – For equities quoted in an active market, any significant decline in their price (more than 50% at reporting date) or a prolonged decline (5 years) compared to the acquisition price is considered as an objective evidence of impairment. In addition, management can decide to recognise impairment losses should other objective evidence be available.
• Interest-bearing financial instruments – In the case of interest bearing financial instruments, impairment is triggered based on the same criteria as applied to individually impaired financial assets valued at amortised cost (see 1.1.6.5.1).

Accounting treatment of the impairment

When available-for-sale equity securities are impaired, the total AFS reserve is recycled and these impairment losses are reported by Dexia Crédit Local in the income statement in "Net gains (losses) on financial assets available for sale". Additional decline in fair value is recorded under the same heading for equity securities.
When an impairment loss has been recognised on interest-bearing financial instruments, any subsequent decline in fair value is recognised in "Cost of risk" if there is objective evidence of impairment. In all other cases, changes in fair value are recognised in "Other comprehensive income".
Impairments on equity securities cannot be reversed in the income statement due to later recovery of quoted prices.

1.1.6.5.4. Off-balance-sheet exposures

Dexia Crédit Local usually converts off-balance-sheet exposures such as credit substitutes (e.g., guarantees and standby letters of credit) and loan commitments into on-balance-sheet items when called. However, there may be circumstances such as uncertainty about the counterparty, where the off-balance-sheet exposure should be regarded as impaired. Dexia Crédit Local recognises provisions on loan commitments if the credit worthiness of the client has deteriorated to such an extent as to make the repayment of any loan and associated interest payments doubtful (see 1.1.22).

1.1.6.6. Accounting for early repayments and restructuring of loans

Dexia Crédit Local has determined the accounting principles applicable to the restructuring of loans in accordance with AG 62 of IAS 39 dealing with the restructuring of financial liabilities.
There are several possibilities for accounting, depending on whether the early repayment is recognised as not being an extinguishment (with refinancing) or as an extinguishment (no refinancing).

Case of early repayment with refinancing

The method of accounting for loan early repayments and early repayment indemnities differs depending on whether or not the restructuring results in terms that are substantially different from those set initially. In accordance with the principles of AG 62, Dexia Crédit Local considers that the terms are substantially different when the net present value of the cash flows under the new terms, including any fees paid net of any fees received, is at least 10% different from the net present value of the remaining cash flows from the original loan.
The accounting treatment of loans and early repayment indemnities depends on the results of the eligibility test. If the eligibility test is passed, i.e. the income statement difference is less than 10%, the original loan is not derecognised and the early repayment indemnity is amortised over the remaining term of the restructured loan. Otherwise, i.e. the difference exceeds 10%, the original loan is derecognised and the early repayment indemnity is recognised immediately in the income statement in "Net gains (losses) on financial assets available for sale".

Case of early repayment without refinancing

When the loan has been extinguished, the early repayment indemnity, as well as any gains or losses arising from an unamortised premium or discount, is recognised in the income statement in "Net gains (losses) on financial assets available for sale" as income for the period, as required by IFRS.

1.1.6.7. Borrowings

Dexia Crédit Local recognises borrowings initially at fair value, being generally their issue proceeds, net of any transaction costs incurred. Subsequently, borrowings are stated at amortised cost. Dexia Crédit Local recognises any difference between their initial carrying amount and the redemption value in the income statement over the period of the borrowings using the effective interest rate method.
The distinction between interest-bearing instruments and equity instruments issued is based on the substance of their underlying contracts rather than their legal form.

1.1.7. FAIR VALUE OF FINANCIAL INSTRUMENTS

1.1.7.1. Valuation principles

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted market prices in an active market for identical instruments are to be used as fair value, as they are the best evidence of the fair value of a financial instrument.

If a financial instrument is not traded on an active market, recourse is provided by valuation models. The objective of a valuation model is to determine the value that is most representative of fair value under current market conditions. Dexia Crédit Local's valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

The valuation model should take into account all factors that market participants would consider when pricing the asset. Measuring the fair value of a financial instrument requires consideration of current market conditions. To the extent that observable inputs are available, they should be incorporated into the model.

Financial assets and liabilities recognised at fair value or for which fair value is calculated for disclosures are categorized into one of three fair value hierarchy levels. The following definitions used by Dexia Crédit Local for the hierarchy levels are in line with IFRS 13 texts:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: valuation techniques based on inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Level 3: valuation techniques for which significant inputs are not based on observable market data.

According to Dexia Crédit Local's policy, transfers between levels of the fair value hierarchy are performed at fair value at the end of the reporting period.

1.1.7.2. Valuation techniques

Dexia Crédit Local's approach to the valuation of its financial instruments (instruments at fair value through profit or loss, assets available for sale and valuations for disclosures) can be summarized as follows:

1.1.7.2.1. Financial instruments measured at fair value (held for trading, fair value option, available for sale, derivatives)

Financial instruments measured at fair value for which reliable quoted market prices are available

If the market is active, market prices are the most reliable evidence of fair value and therefore shall be used for valuation purposes.

The use of market prices quoted in an active market for identical instruments with no adjustments qualifies for inclusion in level 1 within IFRS 13 fair value hierarchy, contrary to the use of quoted prices in inactive markets or the use of quoted spreads.

Financial instruments measured at fair value for which no reliable quoted market prices are available and for which valuations are obtained by means of valuation techniques

Dexia Crédit Local's approach to the valuation of its financial instruments is based as much as possible on observable market data. These valuations are based on independent external market data providers and standard quantitative approaches. The departments Financial Market Risk and Product Control regularly monitor the quality of valuations:

- the valuations of derivatives are compared with those provided by a number of counterparties and analysed quarterly during an *ad hoc* committee;
- transaction execution levels are used to ensure the quality of the valuation approaches;
- the valuation approaches are regularly reviewed and are subject to validation by the Department of Validation.

In order for a fair value to qualify for level 2 inclusion, observable market data should be significantly used. The market data that Dexia Crédit Local incorporates in its valuation models are either directly observable data (prices), indirectly observable data (spreads) or deducted from observable data (price or spread) for similar instruments. Fair value measurements that rely significantly on unobservable data or on own assumptions qualify for level 3 disclosure.

The fair value governance involves several committees that deal with valuation issues. The highest one, the Management Board supervises major decisions taken by lower levels committees (Market Risk Committee and Validation Advisory Committee). This governance ensures a strong control framework for valuation issues as well as the independence between the Front Office, Market Risk and Validation teams, with the aim of producing reliable valuation estimates for the risk monitoring of the trading activity as well as for a fair presentation of the financial and solvency situation of the Group. Dexia Crédit Local general principles for the valuation ensure the use of quoted and observable prices when available or valuation models that take into account all factors that market participants would consider. Models are developed by the Front Office Funding and Markets or Financial Market Risk and are validated by the Department of Validation. Depending on their availabilities, data may come from different sources as tradable or indicative quotes. They are produced by Product Control. An inventory of the products is regularly produced, with their main features, their materiality and their model status.

For bonds and loans for which no active market exists, Dexia Crédit Local maximises the use of market data.

Dexia Crédit Local uses a discount cash-flow model, based on a credit spread. The credit spread is estimated from market data which are directly available from external contributors (Bloomberg, Markit,…) or, when there is no data available for a given instrument, from the issuer credit curve which is adjusted to take into account the characteristics of the specific instrument (maturity,…), or, if the issuer curve is not available, from available market data for similar instruments (from the same economic sector, rating, currency,…).

Concerning the valuation of derivatives, Dexia Crédit Local adjusts the market value to take into account credit risks (Credit Valuation Adjustment (CVA) / Debit Valuation Adjustment (DVA)) and funding costs (Funding Valuation Adjustment (FVA)).

A CVA reflects the counterparty's risk of default and a DVA reflects Dexia Crédit Local's own credit risk.

When determining the CVA / DVA, Dexia Crédit Local considers two different markets:

- The market of collateralized derivatives, where there is a daily exchange of collateral, for which the CVA / DVA is calculated based on expected changes of value over a margin period of risk.
- The market of uncollateralized derivatives, where there is a risk on the fair value of the derivative at the balance-sheet date and also on the expected change of value over the life of the derivative.

Based on projections, positive expected exposures are used for a CVA calculation and negative expected exposures are used for a DVA calculation.

For CVA/DVA calculation, the Probability of Default (PD) parameters are based on market data and market conven-

tions. The Loss Given Default (LGD) parameters are based on market conventions or on internal statistical data taking into account observed recovery rates.
Based on the assumptions that market participants would consider when determining the fair value, Dexia Crédit Local uses for the discounting an overnight rate (OIS) curve for all derivatives, regardless if they are collateralised or not.
A Funding Valuation Adjustment (FVA) takes into account the funding costs associated to its uncollateralized derivative positions. As these uncollateralised derivatives are not subject to margin calls, the bank benefits from savings in funding or bears the cost depending on the direction of their net balance sheet position, and on the market values of these derivatives. The level of funding costs used in determining the FVA reflects the funding of the exposure related to uncollateralized derivatives at rates different from overnight rates.
Dexia Crédit Local will continue to improve its models in the next periods following market practice.

1.1.7.2.2. Financial instruments measured at amortised cost (valuations in IFRS disclosures on fair value)

Financial instruments reclassified from Trading or AFS to L&R

As a response to the financial crisis, the IASB issued on October 13th, 2008 an amendment to IAS 39 permitting the reclassification of certain illiquid financial assets. Dexia Crédit Local decided to benefit from this opportunity to reclassify assets for which an active market, as well as reliable quoted prices, was no longer available.
These assets are valued using Dexia Crédit Local's approach described above for the bonds for which no active market exists.

1.1.7.2.3. Financial instruments classified in HTM and L&R since inception and liabilities

Loans and Receivables, including mortgages loans, and liabilities are valued based on the following valuation principles

General principles

For the valuation of loans classified in L&R since inception the standard market approach is used based on market data considered as observable (credit spreads estimated by sector and applied to borrower's internal rating).
For the borrowing liabilities not quoted on the market, estimated credit spreads are also applied.

Interest rate part

The fair value of fixed-rate loans or liabilities and mortgages reflects interest rate movements since inception.
Embedded derivatives, like caps, floors and prepayment options are included in determining the fair value of loans and receivables or liabilities.

Credit risk part

Credit spreads changes since inception are reflected in the fair value.

1.1.8. INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest rate method based on the initial carrying value (including transaction costs) for financial instruments not valued at fair value through P&L.
Transaction costs are the incremental costs that are directly attributable to the acquisition of a financial asset or liability and are included in the calculation of the effective interest rate. An incremental cost is one that would not have been incurred if the entity had not acquired the financial instrument.
Accrued interest is reported in the same line as the related financial asset or liability in the balance sheet.
Once an interest bearing financial asset has been written down to its estimated recoverable amount, interest income is thereafter recognised based on the interest that was used to discount the future cash flows for measuring the recoverable amount.
Interest income and expenses on derivatives are presented on a gross basis by instrument.

In January 2015, the IFRS Interpretations Committee received a request to clarify an issue relating to the impact of negative effective interest rates on the presentation of income and expenses in the statement of comprehensive income. It noted that interest resulting from a negative interest rate on financial asset does not meet the definition of interest revenue in IAS 18 "Revenue". Following the decision of IFRS IC and according to the view of the European Banking Authority (EBA), Dexia Crédit Local presents negative remuneration on assets together with interest expense and positive remuneration on liabilities together with interest income.

1.1.9. FEE AND COMMISSION INCOME AND EXPENSE

Commissions and fees arising from most of Dexia Crédit Local's activities are recognised on an accrual basis over the life of the underlying transaction.
Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of loans, equity securities or other securities or the purchase or sale of businesses, are recognised when the significant act has been completed.
Loan commitment fees are recognised as part of the effective interest rate if the loan is granted, and recorded as revenue on expiry if no loan is granted.

1.1.10. HEDGING DERIVATIVES

Hedging derivatives are categorised as either:
• a hedge of the fair value of a recognised asset or liability or a firm commitment (fair value hedge); or
• a hedge of a future cash flow attributable to a recognized asset or liability or a forecast transaction (cash flow hedge); or
• a hedge of a net investment in a foreign operation.
Dexia Crédit Local designates derivatives as hedging instruments if certain criteria are met:
• formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is available before hedge accounting is applied;
• the hedge is documented in such a way as to show that it is expected to be highly effective both prospectively and retrospectively in offsetting changes in the fair value or cash flows attributable to the hedged risk in the hedged item throughout the reporting period; and
• the hedge is effective at inception and on an ongoing basis.
Dexia Crédit Local records changes in the fair value of derivatives that are designated, and qualify, as fair value hedges in the income statement, along with the corresponding change in fair value of the hedged assets or the liabilities that is attributable to that specific hedged risk.
If the hedge no longer meets the criteria for a fair value hedge and the hedged item is still recognised, Dexia Crédit Local amortises the adjustment to the carrying amount of a hedged interest-bearing financial instrument to the income statement

over the remaining life of the hedged or hedging instrument if shorter by an adjustment of the yield of the hedged item.

Dexia Crédit Local recognises the effective part of the changes in the fair value of derivatives that are designated and qualify as cash flow hedges, in "Other comprehensive income" under the heading "Unrealised or deferred gains and losses" (see "Consolidated statement of changes in equity"). Any non-effective portion of the changes in the fair value of the hedging instrument is recognised in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". Changes in the fair value of derivatives in respect of Credit Valuation Adjustment (CVA), Debit Valuation Adjustment (DVA) and Funding Valuation Adjustment (FVA) are recognised in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". Amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the periods during which the hedged firm commitment or forecast transaction affects the income statement.

1.1.11. HEDGE OF THE INTEREST RATE RISK EXPOSURE OF A PORTFOLIO

As explained in 1.1.1.1 General, Dexia Crédit Local makes use of the provisions in IAS 39 as adopted by the European Union ("IAS 39 carve-out") because it better reflects the way in which Dexia Crédit Local manages its financial instruments.

Hedge accounting is intended to reduce the interest-rate risk exposure stemming from the selected category of assets or liabilities designated as the qualifying hedged items.

Dexia Crédit Local performs a global analysis of interest-rate risk exposure. It consists in assessing fixed-rate exposure, taking into account all the exposure coming from balance sheet and off-balance-sheet items. This global analysis may exclude certain components of the exposure, such as financial market activities, provided that the risk exposure stemming from the excluded activities is monitored on an activity-by-activity basis.

Dexia Crédit Local applies the same methodology to select which assets and/or liabilities will be entered into the hedge of interest rate risk exposure of the portfolio. Assets and liabilities are included in all the time buckets of the portfolio. Hence, when they are removed from the portfolio, they must be removed from all the time buckets in which they had an impact. Demand deposits and savings accounts may be included in the portfolio based on behavioural study for estimating expected maturity date. Dexia Crédit Local may designate as qualifying hedged items different categories of assets or liabilities such as available-for-sale assets or loan portfolios.

On the basis of this gap analysis, which is realised on a net basis, Dexia Crédit Local defines, at inception, the risk exposure to be hedged, the length of the time-bucket, the test method and the frequency of the tests.

The hedging instruments are a portfolio of derivatives, which may contain offsetting positions. Dexia Crédit Local recognises the hedging items at fair value with adjustments accounted for in the income statement.

Dexia Crédit Local reports hedged interest rate risk revaluation of elements carried at amortised cost on the balance sheet under the line "Fair value revaluation of portfolio hedge".

1.1.12. DAY ONE PROFIT OR LOSS

The day one profit or loss is applicable to all transactions measured at fair value through profit or loss.

The day one profit or loss is the difference between:

- the transaction price and the quoted market price; in cases where the transaction is quoted; or
- the transaction price and the fair value determined by using a valuation technique, (mark-to-model) adjusted with some market value adjustments, such as a liquidity adjustment, model adjustment or credit adjustment in cases where the transaction is not quoted.

If Dexia Crédit Local considers the main parameters of the model as observable and if Risk Management validates the model, the day one profit or loss will be recognised immediately in the income statement.

If Dexia Crédit Local considers the main parameters as unobservable or if Risk management does not validate the model, the day one profit or loss will be amortised linearly over the expected life of the transaction. However, if the data becomes observable subsequently, Dexia Crédit Local will recognise the remaining portion of day one profit or loss in the income statement.

In cases of early termination, the remaining portion of day one profit or loss will be recognised in the income statement. In cases of partial early termination, Dexia Crédit Local will recognize in the income statement the part of the day one profit or loss relating to the partial early termination.

1.1.13. TANGIBLE FIXED ASSETS

Tangible fixed assets include property, plant & equipment and investment properties.

All property, plant & equipment are stated at their cost less accumulated depreciation and impairments. Subsequent costs are, where necessary, included in the carrying amount of the asset or recognised as a separate component, if it is probable that future economic benefits will flow to the Group and the cost of the asset can be reliably measured.

Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives.

The main useful lives are as follows:

- Buildings (including acquisition costs and non deductible taxes): 20 to 50 years;
- Computer equipment: 3 to 6 years;
- Leasehold improvements, equipment and furniture: 2 to 12 years;
- Vehicles: 2 to 5 years.

An item of property, plant & equipment can be composed of significant parts with individually varying useful lives. In such a case, each part is depreciated separately over its estimated useful life. The following parts have been defined:

- Structure of the building: 50 years;
- Roof and frontage: 30 years;
- Technical installations: 10 to 20 years;
- Fixtures and fittings: 10 to 20 years.

As borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset they are capitalised. Other borrowing costs are recognised as an expense.

Tangible fixed assets are tested for impairment when an indication of impairment loss exists. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Where the recoverable amount of an asset cannot be determined individually the Group determines the recoverable amount of the cash generating unit or group of cash generating units to which the asset belongs. Gains and losses on disposals of property and equipment are determined by reference to their carrying amount and are included under "Net gains (losses) on other assets".

Investment properties are those properties held to earn rentals or for capital appreciation. Dexia Crédit Local may also partly use such properties. If the "own use" portions can be sold separately or leased out separately under finance lease, then these portions are accounted for separately. If the "own use" portions cannot be sold separately, the property will be considered as an investment property if Dexia Crédit Local holds an insignificant portion for its own use.
Investment properties are recorded at its cost less accumulated depreciation and impairments. The investment properties are depreciated over their useful lives on a straight-line basis. Depreciation on buildings and other assets given in operating lease are booked under "Other expenses".

1.1.14. INTANGIBLE ASSETS

Intangible assets consist mainly of (a) internally generated and (b) acquired software. The costs associated with maintaining computer software programs are recognised as expense as incurred. However, expenditure that enhances or extends the benefits of computer software programs beyond one year is used to increase the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives from the time the software is available for use. This amortisation period is usually between three and five years, except for core business applications, for which the amortisation period is can be up to 10 years.
As borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset they are capitalised. Other borrowing costs are recognised as an expense.
Intangible assets (other than goodwill) are tested for impairment when an indication of impairment loss exists. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Gains and losses on disposals of intangible assets are determined by reference to their carrying amount and are included under "Net gains (losses) on other assets".

1.1.15. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets (or groups of assets) whose carrying amount will be recovered principally through a sale transaction rather than through continuing use are classified as non-current assets (or disposal groups) "held for sale" if:

• they are available for immediate sale in their present condition; and
• their sale is highly probable within one year.

Dexia Crédit Local measures a non-current asset (or disposal group) classified as held for sale at its carrying amount or at its fair value less costs to sell (whichever is the lower). Non-current assets (or disposal groups) classified as held for sale are presented separately in the balance sheet, without restatement for previous periods. When a disposal group is classified in held for sale, items of Other Comprehensive Income are isolated in a separate publication line of the equity. These assets are no longer depreciated once they qualify as assets (or disposal groups) held for sale. Intercompany accounts between the continuing activities and the disposal group held for sale continue to be eliminated.
A discontinued operation is defined as a component of an entity that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations. Post-tax profit or loss of discontinued operations is presented under a separate line in the income statement. A restatement for previous periods is performed.

1.1.16. GOODWILL

Dexia Crédit Local has no goodwill on its balance sheet and will not acquire any controlling interests in the future following the orderly resolution plan of the group.

1.1.17. ACCRUALS AND OTHER ASSETS

Accruals and other assets mainly include collaterals, accrued income (non-interest related), prepayments, operational taxes and other accounts receivable as well as insurance products (reinsurance, insurance premiums receivables, etc.), construction contracts, inventories, plan assets relating to employee benefit obligations. These other assets are measured in accordance with the applicable standard. Plan assets are recognised in accordance with IAS 19 (revised) requirements.

1.1.18. LEASES

A finance lease is one that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

1.1.18.1. Dexia Crédit Local is the lessee

Dexia Crédit Local grants operating leases principally for the rental of equipment or real estate. Lease rentals are recognised in the income statement on a straight-line basis over the lease term.
When an operating lease is terminated before the lease period has expired, any payment to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.
If the lease agreement substantially transfers the risk and rewards of ownership of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception the asset is recorded as the present value of the minimum lease payments or the fair value (whichever is the lower) and is depreciated over its estimated useful life unless the lease term is short and the title is not expected to be transferred to Dexia Crédit Local. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policies applicable to that asset. The corresponding rental obligations are recorded as borrowings and interest payments are recorded using the effective interest rate method.

1.1.18.2. Dexia Crédit Local is the lessor

Dexia Crédit Local grants both operating and finance leases.
Revenue from operating leases is recognised in the income statement on a straight-line basis over the lease term. The underlying asset is accounted for in accordance with the accounting policies applicable to this type of asset.
For finance leases, Dexia Crédit Local recognises "leases receivable" at an amount equal to the net investment in the lease, which can be different from the present value of minimum lease payments.
The interest rate implicit in the lease contract acts as the discount rate. Interest income is recognised over the term of the lease using the interest rate implicit in the lease.

1.1.19. SALE AND REPURCHASE AGREEMENTS AND LENDING OF SECURITIES

Securities sold subject to a linked repurchase agreement ("repos") are not derecognised because, despite the transfer of ownership of securities, there is no substantial transfer of risks and rewards and remain in their original category. The corresponding liability is entered under "Interbank borrowings and deposits" or "Customer borrowings and deposits", as appropriate. The asset is reported as "pledged" in the notes.

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Securities purchased under agreements to resell ("reverse repos") are recorded as off-balance-sheet items and the corresponding loans recorded as "Interbank loans and advances" or "Customer loans and advances".

The difference between the sale and repurchase price is treated as interest income or expense and is accrued over the life of the agreements using the effective interest rate method.

Securities lent to counterparties are not derecognised but, rather recorded in the financial statements in the same heading.

Securities borrowed are not recognised in the financial statements.

If they are sold to third parties, the gain or loss is entered under "Net gains (losses) on financial instruments at fair value through profit or loss" and the obligation to return them is recorded at fair value under "Financial liabilities at fair value through profit or loss".

1.1.20. DEFERRED INCOME TAX

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The principal temporary differences arise from the depreciation of property, plant & equipment, the revaluation of certain financial assets and liabilities (including derivative contracts, provisions for pensions and other post-retirement benefits), provisions for loan and other impairments and, in relation to acquisitions, from the difference between the fair value of the net assets acquired and their tax base.

The tax rates used are the rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are not discounted. Deferred tax assets on deductible temporary differences and tax loss carry-forwards are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences and tax losses can be utilised.

Deferred tax liability is provided on taxable temporary differences arising from investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Current and deferred taxes are recognised under "Corporate income tax" in the income statement together with related interests and penalties if they are deemed equivalent to these taxes. Otherwise interests and penalties on late payments related to income taxes are recognised in the interest margin in net banking income.

On the other hand, deferred tax related to the fair value remeasurement of available-for-sale investments and cash flow hedges, and other transactions recorded directly in equity, are also credited or charged directly to equity.

1.1.21. EMPLOYEE BENEFITS

1.1.21.1. Short-term benefits

Short-term benefits, payable before 12 months after the end of the annual reporting period in which the service is rendered, are measured on an undiscounted basis and recognised as an expense.

Employee entitlement to annual leave or long-service leave is recognised when it is granted to the employee. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance-sheet date.

1.1.21.2. Post-employment benefits

If Dexia Crédit Local has a legal or constructive obligation to pay post-employment benefits, the plan is either classified as "defined benefit" or "defined contribution plan". Dexia Crédit Local offers a number of defined benefit and defined contribution plans, the assets of which are generally held by insurance companies or pension funds. The pension plans are generally funded by payments from both Dexia Crédit Local and its employees.

In some cases, Dexia Crédit Local provides post-retirement health care benefits to its retirees.

1.1.21.2.1. Defined benefit plans

Employee benefit obligations are measured at the present value of the estimated future cash outflows using the interest rates of AA-rated corporate bonds, which have terms to maturity approximating to the terms of the related liability. The valuation technique for the assessment of pension expenses incorporates actuarial assumptions comprising both demographic assumptions and financial assumptions such as the inflation rate.

For defined benefit plans, the cost is determined using the Projected Unit Credit Method, under which each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to built up the final obligation.

The amount recognised in the balance sheet is the present value of the defined benefit obligation (i.e., the present value of the expected future payments required to settle the obligation resulting from the employee service in the current and prior periods), reduced by the fair value of plan assets at the balance-sheet date. The defined obligation is presented net of plan assets as a liability or an asset. Therefore, an asset may arise where a plan has been overfunded and are recorded separately if those assets are held by a Group entity. Any asset recognised is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets (excluding net interest) and any change in the effect of the asset ceiling (excluding net interest), they are recognised immediately in other comprehensive income and are not reclassified to profit or loss in a subsequent period.

Current service cost, past service cost (which is the change in the present value of the defined benefit obligation, resulting from a plan amendment or a curtailment) and any gain or loss on settlement are recognised in profit or loss.

Net interest on the net defined benefit liability (asset) is recognised in profit or loss. It is calculated by applying the discount rate used to measure the defined benefit obligation to the net defined benefit liability (asset), both as determined at the start of the annual reporting period, and taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Qualified external actuaries carry out valuations of these defined benefit obligations. All valuations assumptions and results are reviewed and validated by an external actuary for Dexia Crédit Local that ensures that all calculations are harmonised and calculated in compliance with IAS 19 (as revised in 2011).

1.1.21.2.2. Defined contribution pension plans

Dexia Crédit Local's contributions to defined contribution pension plans are charged to the income statement in the year to which they relate. Under such plans, Dexia Crédit Local's obligations are limited to the contributions that Dexia Crédit Local agrees to pay into the fund on behalf of its employees.

1.1.21.2.3. Retirement termination payments

Retirement termination payments are treated as defined benefit plans.

1.1.21.3. Other long-term benefits

These mainly includes provisions for jubilee premiums that employees receive after completion of specified periods of service.
Unlike defined benefit plans, actuarial gains and losses relating to these benefits are immediately recognised. All past service costs are recognised immediately in the income statement.

1.1.21.4. Termination benefits

A termination benefit provision is recorded at the earlier of the following dates:

- when Dexia Crédit Local can no longer withdraw the offer of those benefits; and
- when Dexia Crédit Local recognises costs for a restructuring that involves the payment of termination benefits.

1.1.21.5. Share-based payment

Dexia Crédit Local offered equity-settled share-based payments like stock options plans (SOPs) and employee share purchase plans (ESPPs) and cash-settled share-based payments.
The fair value of equity-settled plans was measured at grant date by reference to the fair value of the underlying equity instrument based on valuation techniques and on market data and took into account market-based vesting conditions. The impact of other vesting conditions was reflected in the accounts via an adjustment of the number of equity instruments included in the measurement. The fair value, recognised as a remuneration expense, was credited against equity.
In cash-settled share-based payments, the services received and the liability incurred, to pay for those services, were measured at the fair value of the liability. This fair value was measured at the grant date and at each reporting date until settled. The value was recognised as a remuneration expense with a corresponding increase in liabilities.

1.1.22. PROVISIONS

Provisions are mainly recognised for litigations claims, restructuring, and loan commitments.
Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The discount rate is the pre-tax rate that reflects current market assessments of the time value of money.
Provisions are recognised when:

- Dexia Crédit Local has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

Provisions on loan commitments are recognised when there is uncertainty about the creditworthiness of the counterparty.

1.1.23. SHARE CAPITAL AND TREASURY SHARES

1.1.23.1. Share issue costs

External incremental costs directly attributable to the issue of new equity securities, other than as part of a business combination, are deducted from equity net of any related income tax.

1.1.23.2. Dividends on Dexia Crédit Local's ordinary shares

Dexia Crédit Local recognises its dividends on its ordinary shares as a liability from the date on which they are declared. Any dividends for the year declared post-balance-sheet date are disclosed in the subsequent events note.

1.1.24. RELATED-PARTY TRANSACTIONS

Two parties are considered to be related if one has the ability to control the other or exercises significant influence over the other party's financial policy or operational decisions or is a member of the key management personnel of the other party or of a parent. Transactions with companies accounted for by the equity method are reported, as are those with the Directors.

1.1.25. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with a maturity of less than 3 months maturity from the date of acquisition included within cash and balances with central banks, interbank loans and advances.

1.1.26. EARNINGS PER SHARE

The "Basic earnings per share" are calculated by dividing the net income available to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by Dexia Crédit Local and held as treasury shares.
For the "Diluted earnings per share", the weighted average number of ordinary shares in issue and the net income are adjusted to assume conversion of all dilutive potential ordinary shares, such as the convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when the derivatives are "in the money" and their conversion to shares would decrease net earnings per share.

1.2. Ownership interest in subsidiaries and other entities

a. Criteria for consolidation and use of the equity method

The Dexia Crédit Local Group applies all rules with regard to the consolidation scope resulting from:

- IFRS 10 on the preparation and presentation of consolidated financial statements;
- IFRS 3 on business combinations and the impact of accounting methods on the consolidated accounts;
- IAS 28 (revised) on Investments in associates and joint ventures;
- IFRS 11 on Joint Arrangements.

The policies laid down by these standards imply that all companies over which the Group exercises exclusive or joint control or notable influence must be consolidated.
Consequently, all companies exclusively or jointly controlled, or over which the group holds a notable influence, are consolidated.
Pursuant to the principle of a true and fair view of the financial statements of the Group, any companies whose contribution to the consolidated financial statements is not material shall not be included in the consolidation scope.

Entities are considered as non-significant when, at consolidated level, the aggregate of their total assets, liabilities, equity and net income does not exceed 1% of the total of consolidated balance sheet and net income (respectively EUR 1.8 billion and EUR 3.38 million (average on 3 years) in 2017). As at 31 December 2017, the sum of the total balance sheet and net income of unconsolidated entities does not exceed this threshold.

b. Changes in the consolidation scope compared with 31 December 2016

The companies CBX IA2 and Dexia CLF Banque transferred their assets to Dexia Crédit Local.

Dexia Delaware and Tevere Finance S.r.l were liquidated.

The Special Purpose Vehicule Sumitomo Mitsui left the scope of consolidation in 2017 following the disposal of the subordinated tranch issued by this SPV.

Following the vote of the General Meeting of 30 March 2017 of Dexia Israel, Dexia Crédit Local has transferred 6.46 % of its shares to its co-shareholder ULAI (Union of Israeli Local Authorities) and now owns 58.89% of Dexia Israel (versus 65.31% of dividend distribution rights and 65.99% of voting rights at 31 December 2016), as well as effective control of the Board of Directors.

As the modification of the ownership's interest didn't lead to a loss of control of the subsidiary, the transaction has been recorded in own funds, as required by the IFRS standards: the group's consolidated reserves and the cumulative translation adjustments – group share decreased respectively by EUR 10.8 million and EUR 3.4 million and the minority interests increased by the same amount.

c. Impact of changes in scope on the consolidated income statement

The impact of the evolution of the scope of consolidation in the consolidated income statement is not significant.

d. Scope of the Dexia Crédit Local Group as at 31 December 2017

All Group entities are managed in run-off, except Dexia Israel, in order to preserve the value of its commercial franchise with a view to its disposal.

A. Fully consolidated entities

Name	Country	31 December 2016 Method	Control rate	Interest rate	31 December 2017 Method	Control rate	Interest rate	Ref
PARENT COMPANY								
Dexia Crédit Local S.A.	France							
Dexia Crédit Local, Dublin Branch	Ireland	FC	100	100	FC	100	100	
DCL New York Branch	USA	FC	100	100	FC	100	100	
DCL Sucursal en España	Spain	FC	100	100	FC	100	100	
DCL sucursal em Portugal	Portugal	FC	100	100	FC	100	100	
SUBSIDIARIES								
CBX.IA 2	France	FC	100	100				S1
Dexia CLF Banque	France	FC	100	100				S1
Dexia CLF Régions Bail	France	FC	100	100	FC	100	100	
Dexia Crediop	Italy	FC	70	70	FC	70	70	
Dexia Delaware LLC	USA	FC	100	100				S1
Dexia Financial Products Services LLC(3)	USA	FC	100	100	FC	100	100	
Dexia Flobail	France	FC	100	100	FC	100	100	
Dexia FP Holdings Inc(2)	USA	FC	100	100	FC	100	100	
Dexia Holdings, Inc	USA	FC	100	100	FC	100	100	
Dexia Israel Bank Ltd.	Israel	FC	65.99	65.31	FC	58.89	58.89	
Dexia Kommunalbank Deutschland AG(5)	Germany	FC	100	100	FC	100	100	
FSA Asset Management LLC(3)	USA	FC	100	100	FC	100	100	
FSA Capital Management Services LLC(3)	USA	FC	100	100	FC	100	100	
FSA Capital Markets Services LLC(3)	USA	FC	100	100	FC	100	100	
FSA Global Funding LTD(2)	Cayman Islands	FC	100	100	FC	100	100	
FSA Portfolio Asset Limited (UK)(3)	United Kingdom	FC	100	100	FC	100	100	
Premier International Funding Co(4)	Cayman Islands	FC	0	0	FC	0	0	
Sumitomo Mitsui SPV	Japan	FC	100	100				S3
Tevere Finance S.r.l(1)	Italy	FC	100	70				S1
WISE 2006-1 PLC	Ireland	FC	100	100	FC	100	100	

(1) Companies consolidated by Dexia Crediop.
(2) Companies consolidated by Dexia Holdings Inc.
(3) Companies consolidated by Dexia FP Holdings Inc.
(4) Companies consolidated by FSA Global Funding Ltd.
(5) Legal form has been changed in Gmbh on 16 March 2018.

Method *FC: Fully Consolidated*
Ref *Out of scope*
S1: Cessation of activity (including dissolution, liquidation)
S2: Company deconsolidated since become below the thresholds
S3: Disposal

B. Non fully consolidated subsidiaries and associated companies not accounted for by the equity method

Name	Country	31 December 2016			31 December 2017			Ref
		Method	Control rate	Interest rate	Method	Control rate	Interest rate	
DCL Evolution	France	not FC	100	100	not FC	100	100	
Dexia Crediop Ireland	Ireland	FC	100	70				S2
Dexia Crédito Local México SA de CV (Sofom Filial)	Mexico	not FC	100	100	not FC	100	100	
Dexia Kommunalkredit Adriatic	Croatia	not FC	100	100				S1
Dexia Kommunalkredit Hungary	Hungary	not FC	100	100				S1
Dexia Kommunalkredit Romania	Romania	not FC	100	100	not FC	100	100	
Dexia Management Services Limited	United Kingdom	not FC	100	100	not FC	100	100	
European public infrastructure managers	Luxembourg	not EM	20	20	not EM	20	20	
Genebus Lease	France	not FC	100	100	not FC	100	100	
Impax New Energy Investor	Luxembourg	not EM	24.99	24.99	not EM	24.99	24.99	
La Cité	France	not EM	25.5	25.5				S3
New Mexican Trust	Mexico	not FC	100	100	not FC	100	100	
Progetto Fontana (in liquidation)	Italy	not FC	100	100	not FC	100	100	
South European Infrastructure Equity Finance Ltd Partnership	Luxembourg	not EM	20.83	20.83	not EM	20.83	20.83	
SPS - Sistema Permanente di Servizi	Italy	not EM	20.4	14.28	not EM	20.4	14.28	

Ref *Out of scope*
S1: Cessation of activity (including dissolution, liquidation)
S2: Company deconsolidated since become below the thresholds
S3: Disposal

Method *FC: Fully Consolidated*
not FC: not Fully Consolidated
not EM: not accounted for by the Equity Method

Nature of the risks associated with an entity's interests in consolidated structured entities

As part of the sale of FSA to Assured Guaranty, Dexia retained the Financial Products activity and, generally, agreed to indemnify FSA and Assured Guaranty for any losses they may suffer in relation to that activity. The Financial Products activity includes the Global Funding business which includes a portion of the assets and liabilities of FSA Global Funding and of Premier International Funding Co.

Dexia Crédit Local did not provide, financial or other support to a consolidated structured entity when Dexia Crédit Local was not contractually obliged to do so, nor has an intention to do so in the future.

Dexia Crédit Local did not provide financial or other support resulted in the entity controlling the structured entity.

e. Significant restrictions on assets and liabilities of an entity

Following IFRS 12, Dexia Crédit Local provides the list of significant restrictions on its ability to access or use the assets and settle the liabilities of the Group.

The information regarding financial assets pledged as collateral for liabilities or contingent liabilities is presented in note 7.3.b.

The assets guaranteeing the secured debt issued by covered bonds entities and the guaranteed investment contracts are presented in note 7.3.b.

Certain assets held by Dexia Crédit Local and benefiting from a credit risk hedge in the form of a guarantee or even a CDS are subject to some legal restrictions, commonly called "Representation to Hold clauses"(1)

Some restrictions concern structured entities. They take the form of segregation of assets in order to satisfy the obligations of the issuer to the noteholders as well as requirement of agreement from the insurer or the guarantor.

Pursuant to the European Commission Decision of 28 December 2012, there is a general ban on the payment of any form of dividend by any subsidiary controlled directly or indirectly by Dexia, in particular when such a payment would entail mandatory payment of a coupon on Tier 1 hybrid instruments or Tier 2 instruments held by persons other than Dexia and its subsidiaries.

Regulated entities are required to comply with regulatory requirements applicable to them.

Furthermore, some regulators limit the ability of a subsidiary or branch under their supervision, to finance the parent company above a certain threshold.

f. Interest in unconsolidated structured entities

This is mainly a securitisation vehicle (FCC) of loans to customer. This vehicle is financed through the issuance of notes.

Interests in unconsolidated structured entities (in EUR million)	Securitisation Special Purpose Entities	Other activities	Total
Derivatives	191		191
Debt securities	250		250
TOTAL	**441**		**441**
Total assets of unconsolidated structured entities	**750**		**750**

The maximum exposure to loss is the fair value of derivatives and the amortised costs of other instruments.

Dexia Crédit Local is considered to be a sponsor of a structured entity when it is primarily involved in the design and establishment of the structured entity and when it transferred assets to the structured entity or provided guarantees regarding the structured entity's performance. Dexia Crédit Local, as a

(1) Guarantee contracts with monolines (or with banks acting as intermediary for monolines) contain "representation to hold clauses" which (more or less strictly) oblige the beneficiary to hold the guaranteed assets until the end-term of the guarantee.

run-off structure does not have income anymore from sponsored structure without interest in the entity as at 31 December 2017.

g. Subsidiaries with minority interests that are material

Minority interests are considered material when they represent more than 5% of equity group share or when minority interests represent more then 5% of total assets.

Dexia Crediop S.p.a	31/12/2016	31/12/2017
Percentage of ownership held by minority interests	30%	30%
Principle place of business	Italy	Italy
Accumulated minority interests (in EUR million)	284	282
Profit or loss allocated to minority interests (in EUR million)	(5)	(1)
Dividend paid to minority interests	0	0
Assets (in EUR million)	23,404	20,531
Liabilities (in EUR million)	22,459	19,590
Equity (in EUR million)	945	941
Net banking income (in EUR million)	70	36
Profit or loss (in EUR million)	(17)	(3)
Total comprehensive income (in EUR million)	(33)	(4)

1.3 Significant items included in the statement of income

Over the year 2017, Dexia Crédit Local posted a net result Group share of EUR -241 million.

During this year, the worsening of the financial situation of the Commonwealth of Puerto Rico led to the recognition of a global charge of EUR -112 million presented in the following items of the statement of income:

- in *Cost of risk* for an amount of EUR -58 million following the losses net of reversals of provisions on the positions disposed together with the increase of provisioning on the residual exposures to Puerto Rico;
- in Net *gains or losses on financial instruments at fair value through profit or loss* for EUR -54 million for the recycling in result of the cash flow hedge reserve associated to the funding at floating rate of the position sold.

The *Net gains and losses on financial instruments at fair value,* at EUR -84 million included also a positive amount of EUR +28 million for the evolution of the valuation of collateralised derivatives on the basis of an OIS curve, of the counterparty risk on derivatives (Credit Valuation Adjustment and Debit Valuation Adjustment) and of the bid ask reserve on derivatives. In 2016, this impact amounted to EUR +258 million. Moreover, a Funding Value Adjustment (FVA) aiming measuring the funding costs associated with non-collateralised derivatives led to the recognition of a positive amount of EUR +40 million. In 2016, the amount was negative for EUR -57 million.

In this item was also recorded a positive result of EUR +10 million as compensation related to the payment of negative interests while the contracts or the current legislation in force, allowed not to pay them. In 2016, those compensations amounted to EUR +144 million.

Furthermore, the disposal of Negative Basis Trade and the settlement of credit default swap led to the recognition of a charge of EUR -29 million.

The *Net gains and losses on financial assets available for sale* amounted to EUR -35 million. In the framework of the disposal program of assets, during the fourth quarter of 2017, a portfolio of Spanish covered bonds (EUR 1.3 billion) and a port-folio of loans on the French local public sector (EUR 604 million) were sold with a negative net result including the breakdown of hedging derivatives for EUR -64 million. The item also included a loss of EUR -23 million on the loans of the Special Purpose Entity Sumitomo, leaving the Group's assets following the deconsolidation of this SPE.

In 2017, the weight of the banking taxes and regulatory contributions in the *Operating expenses* was EUR -89 million. In 2016, it amounted EUR -113 million, in which was included an EUR -25 million extraordinary contribution to the Italian Resolution Fund.

The tax rates used for the computation of the Group's deferred taxes have been released as at 31 December 2017 to take into account the evolution of the tax rules in various countries. This led to the recognition of a positive deferred tax of EUR 8 million in the result of the period in the item *Income tax*. This limited impact is explained by the fact that the Dexia Crédit Local group has a position of unrecognised deferred tax assets, due to the losses realised following the resolution of its activities.

1.4 Other significant events of the year

On 4 October 2017, Dexia Crédit Local signed an agreement with Cognizant for 10 years, making Cognizant Dexia Crédit Local's strategic partner for IT and the management of operational processes on back office markets and credit activities in France and Belgium.

Under the terms of this agreement, Dexia Crédit Local 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 Crédit Local staff members will join the new entity, Cognizant Horizon.

As IT activities were transferred on 1st November, the decrease of staff expenses as well as the increase of consulting expenses is of little significance for the year 2017. However, the impact will be more important for the year 2018 as it will concern a full year for the IT activities and a six-months period for the back office activities.

1.5 Post-balance-sheet events

On 17 March 2018, Dexia Crédit Local successfully agreed on an off-market transaction with a series of qualified investors, involving the sale of its 58.9 % participation in Dexia Israel Bank (Dexia Israel). The sale is made at a price of NIS 674 per share and the total consideration amounts to approximately EUR 82 million.

The impact of the sale, considered to be non-material, will be recorded in the group's 1Q 2018 consolidated financial statements.

2. Notes on the assets

(Some amounts may not add up due to roundings off)

2.0. Cash and central banks (Item I - Assets)

(in EUR million)	31/12/2016	31/12/2017
Mandatory reserve deposits with central banks	293	61
Other central banks deposits[1]	3,929	10,659
TOTAL	**4,222**	**10,720**
of which included in cash and cash equivalents	*4,222*	*10,720*

(1) 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. As of December 31, 2017, the liquidity reserve is EUR 16.4 billion of which EUR 10.7 billion in the form of deposits with central banks.

2.1. Financial assets at fair value through profit or loss (Item II - Assets)

This line includes both the portfolio held for trading and all financial assets at fair value through profit or loss (see point regarding "Financial assets at fair value through profit or loss" in note 1.1 "Accounting policies and valuation methods").

(in EUR million)	31/12/2016	31/12/2017
Loans and securities[1]	1,365	679
Derivatives (see note 4.1.b)	16,415	12,509
TOTAL	**17,780**	**13,188**

(1) Securities were sold in 2017.

a. Analysis by counterparty of loans and securities at fair value through profit and loss

	31/12/2016			31/12/2017		
(in EUR million)	Held for trading	Designated at fair value	Total	Held for trading	Designated at fair value	Total
Banks	0	0	0	0	0	0
Other	1,365	0	1,365	679	0	679
TOTAL	**1,365**	**0**	**1,365**	**679**	**0**	**679**
of which included in finance leases						

b. Analysis by nature of loans and securities at fair value through profit and loss

	31/12/2016			31/12/2017		
(in EUR million)	Held for trading	Designated at fair value	Total	Held for trading	Designated at fair value	Total
Bonds issued by public bodies	0	0	0	0	0	0
Other bonds and fixed-income instruments	1,365	0	1,365	679	0	679
TOTAL	**1,365**	**0**	**1,365**	**679**	**0**	**679**

c. Treasury bills and other eligible bills for refinancing with central banks
Nil.

d. Securities pledged under repurchase agreements (repos)
Nil.

e. Analysis by maturity and interest rate: see notes 7.6. and 7.4.

f. Analysis of the fair value: see note 7.1.

g. Reclassification of financial assets (IAS 39 amended): see note 2.12.A.

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2.2. Financial assets available for sale (Item IV - Assets)

a. Analysis by counterparty

(in EUR million)	31/12/2016	31/12/2017
Public sector	9,238	7,228
Banks	3,937	1,830
Other	3,329	1,737
Performing assets	**16,504**	**10,795**
Impaired equities and other variable-income instruments	92	77
Impaired assets	**92**	**77**
TOTAL ASSETS BEFORE IMPAIRMENT	**16,595**	**10,872**
Specific impairment	(47)	(42)
TOTAL ASSETS AFTER IMPAIRMENT	**16,548**	**10,830**

b. Analysis by nature

(in EUR million)	31/12/2016	31/12/2017
Bonds issued by public bodies	7,142	6,227
Other bonds and fixed-income instruments	9,196	4,415
Equities and other variable-income instruments	257	229
TOTAL ASSETS BEFORE IMPAIRMENT	**16,595**	**10,871**
Specific impairment	(47)	(42)
TOTAL ASSETS AFTER IMPAIRMENT	**16,548**	**10,830**

c. Convertible bonds included in the available for sale portfolio (positions higher than EUR 50 million)
Nil.

d. Analysis by maturity and interest rate: see notes 7.6 et 7.4

e. Analysis of fair value: see note 7.1

f. Analysis of quality: see note 2.11

g. Impact analysis on portfolio reclassification (IAS39 amended) and transfers to financial assets held to maturity: see note 2.12.

2.3. Interbank loans and advances (Item V - Assets)

a. Analysis by nature

(in EUR million)	31/12/2016	31/12/2017
Nostri accounts	529	307
Reverse repurchase agreements *(reverse repos)*	2,939	2,980
Other interbank loans and advances	1,243	929
Debt instruments	2,435	1,798
Performing assets	**7,146**	**6,014**
Impaired assets	**0**	**0**
TOTAL ASSETS BEFORE IMPAIRMENT	**7,146**	**6,014**
Collective impairment	(37)	(18)
TOTAL ASSETS AFTER IMPAIRMENT	**7,109**	**5,995**
of which included in cash and cash equivalents	*1,342*	*400*

b. Analysis by maturity and interest rate: see notes 7.6. et 7.4.

c. Analysis of fair value: see note 7.1.

d. Analysis of quality: see note 2.11.

e. Reclassification of financial assets (IAS39 amended): see note 2.12.A

2.4. Customer loans and advances (Item VI - Assets)

a. Analysis by counterparty

(in EUR million)	31/12/2016	31/12/2017
Public sector	77,629	67,908
Other	40,887	30,696
Performing assets	**118,516**	**98,603**
Impaired loans and advances	854	693
Impaired debt instruments	208	183
Impaired assets	**1,062**	**876**
TOTAL ASSETS BEFORE IMPAIRMENT	**119,578**	**99,479**
Specific impairment	(319)	(256)
Collective impairment	(376)	(309)
TOTAL	**118,882**	**98,914**
of which included in finance leases	*1,318*	*1,242*

b. Analysis by nature

(in EUR million)	31/12/2016	31/12/2017
Loans and advances	68,314	57,730
Debt instruments	50,202	40,873
Performing assets	**118,516**	**98,603**
Impaired loans and advances	854	693
Impaired debt instruments	208	183
Impaired assets	**1,062**	**876**
TOTAL ASSETS BEFORE IMPAIRMENT	**119,578**	**99,479**
Specific impairment	(319)	(256)
Collective impairment	(376)	(309)
TOTAL ASSETS AFTER IMPAIRMENT	**118,882**	**98,914**
of which included in finance leases	*1,318*	*1,242*

c. Analysis by maturity and interest rate: see notes 7.6. and 7.4.

d. Analysis of fair value: see note 7.1.

e. Analysis of quality: see note 2.11.

f. Reclassification of financial assets (IAS39 amended): see note 2.12.A

2.5. Financial assets held to maturity (Item VIII - Assets)

a. Analysis by counterparty

(in EUR million)	31/12/2016	31/12/2017
Public sector	1,911	1,750
Other	7	0
Performing assets	**1,918**	**1,750**
Impaired assets	**0**	**0**
TOTAL ASSETS BEFORE IMPAIRMENT	**1,918**	**1,750**
Specific impairment	0	0
Collective impairment	0	0
TOTAL ASSETS AFTER IMPAIRMENT	**1,918**	**1,750**

b. Analysis by nature

(in EUR million)	31/12/2016	31/12/2017
Bonds issued by public bodies	1,911	1,750
Other bonds and fixed-income instruments	7	0
TOTAL ASSETS BEFORE IMPAIRMENT	**1,918**	**1,750**
Specific impairment	0	0
Collective impairment	0	0
TOTAL ASSETS AFTER IMPAIRMENT	**1,918**	**1,750**

c. Analysis by maturity and interest rate: see notes 7.6 and 7.4

d. Analysis of fair value: see note 7.1

e. Analysis of quality: see note 2.11

f. Impact analysis transfer of financial assets from available for sale to held to maturity: see note 2.12.B

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2.6. Tax assets (Items IX and X - Assets)

(in EUR million)	31/12/2016	31/12/2017
Current tax assets	28	18
Deferred tax assets (see note 4.2)	32	29

2.7. Accruals and other assets (Items XI - Assets)

(in EUR million)	31/12/2016	31/12/2017
Other assets	248	558
Cash collateral	36,632	29,989
TOTAL	**36,880**	**30,547**

Other assets

Analysis by nature (in EUR million)	31/12/2016	31/12/2017
Deferred expense	8	5
Other accounts receivable	233	550
Other taxes	6	3
Performing assets	**247**	**558**
Impaired assets	**2**	**1**
TOTAL ASSETS BEFORE IMPAIRMENT	**249**	**559**
Specific impairment	(2)	(1)
TOTAL ASSETS AFTER IMPAIRMENT	**248**	**558**

2.8. Tangible fixed assets (Items XV - Assets)

a. Net book value

	Land and buildings	Office furniture and other equipment	Total
(in EUR million)	Own use owner	Own use owner	
Acquisition cost as at 1 Jan. 2016	**348**	**51**	**398**
- Disposals[(1)]	(329)	(3)	(332)
- Transfers and cancellations	0	(1)	(1)
- Translation adjustments	0	1	1
Acquisition cost as at 31 Dec. 2016 (A)	**19**	**49**	**68**
Accumulated depreciation and impairment as at 1 Jan. 2016	**(66)**	**(41)**	**(108)**
- Depreciation booked	0	(3)	(3)
- Disposals[(1)]	53	3	56
- Transfers and cancellations	0	1	1
- Translation adjustments	0	(1)	(1)
Accumulated depreciation and impairment as at 31 Dec. 2016 (B)	**(13)**	**(41)**	**(53)**
Net book value as at 31 Dec. 2016 (A)+(B)	**6**	**8**	**15**

(1) Disposal of CBX Tower in La Défense.

(in EUR million)	Land and buildings Own use owner	Office furniture and other equipment Own use owner	Total
Acquisition cost as at 1 Jan. 2017	**19**	**49**	**68**
- Acquisitions	0	1	**1**
- Disposals	0	(3)	(3)
- Transfers and cancellations	(5)	(10)	(15)
- Translation adjustments	0	(2)	(2)
Acquisition cost as at 31 Dec. 2017 (A)	**14**	**35**	**49**
Accumulated depreciation and impairment as at 1 Jan. 2017	**(13)**	**(41)**	**(53)**
- Depreciation booked	0	(2)	(2)
- Disposals	0	1	1
- Transfers and cancellations	1	8	9
- Translation adjustments	0	2	2
Accumulated depreciation and impairment as at 31 Dec. 2017 (B)	**(12)**	**(32)**	**(43)**
Net book value as at 31 Dec. 2017 (A)+(B)	**2**	**3**	**4**

b. Fair value of investment property

Nil.

c. Capitalised expenditures for the construction of tangible fixed assets

Nil.

d. Contractual obligations relating to investment property at the end of the period

Nil.

e. Contractual obligations relating to property, plant and equipment at the end of the period

Nil.

2.9. Intangible assets (Items XVI - Assets)

	2016			2017		
(in EUR million)	Internally developed software	Other intangible assets[(1)]	Total	Internally developed software	Other intangible assets[(1)]	Total
Acquisition cost as at 1st January	**91**	**106**	**198**	**104**	**112**	**216**
- Acquisitions	13	5	17	11	3	14
- Disposals	0	0	0	0	(2)	(2)
- Transfers and cancellations	0	0	0	(1)	(2)	(3)
- Translation adjustments	0	1	1		(3)	(3)
Acquisition cost as at 31 December (A)	**104**	**112**	**215**	**114**	**108**	**222**
Accumulated depreciation and impairment as at 1st January	**(74)**	**(97)**	**(171)**	**(81)**	**(103)**	**(184)**
- Booked	(7)	(6)	(12)	(7)	(4)	(11)
- Disposals	0	0	0	0	2	2
- Transfers and cancellations	0	0	0	1	2	3
- Translation adjustments	0	(1)	(1)	0	2	2
Accumulated depreciation and impairment as at 31 December (B)	**(81)**	**(103)**	**(184)**	**(87)**	**(101)**	**(188)**
Net book value as at 31 December (A)+(B)	**23**	**9**	**32**	**27**	**7**	**34**

(1) Other intangible assets include primarily purchased software.

2.10. Leases

a. Group as lessor

Finance leases

Gross investment in finance leases (in EUR million)	31/12/2016	31/12/2017
Less than 1 year	81	136
1 year to 5 years	361	320
Over 5 years	873	784
Subtotal (A)	**1,316**	**1,240**
Unearned future finance income on finance leases (B)	0	0
Net investment in finance leases (A)-(B)	**1,316**	**1,240**

Additional information (in EUR million)	31/12/2016	31/12/2017
Estimated fair value of finance leases	1,316	1,236

Operating leases

Nil.

b. Group as lessee

Finance leases

Nil.

Operating leases

Future net minimum lease payments under non-cancelable operating leases (in EUR million)	31/12/2016	31/12/2017
Less than 1 year	19	18
1 year to 5 years	62	54
TOTAL	**82**	**72**
Future minimum sublease payments expected to be received under non-cancelable subleases at the balance sheet date	1	1

Lease and sublease payments recognised as expenses during the year (in EUR million)	31/12/2016	31/12/2017
Minimum lease payments[1]	13	18
Contingent lease payments	1	0
Sublease payments	(1)	(1)
TOTAL	**13**	**17**

(1) The figures as at 31/12/2016 have been restated.

2.11. Quality of financial assets

(in EUR million)	31/12/2016	31/12/2017
Analysis of performing financial assets		
Interbank loans and advances	7,146	6,014
Customer loans and advances	118,516	98,603
Financial assets held to maturity	1,918	1,750
Financial assets available-for-sale	16,503	10,795
Fixed revenue instruments	*16,338*	*10,642*
Variable revenue instruments	*165*	*152*
Other accounts receivable and other assets (note 2.7)	233	550
TOTAL PERFORMING FINANCIAL ASSETS	**144,316**	**117,712**
Collective impairment	(413)	(327)
NET TOTAL PERFORMING FINANCIAL ASSETS	**143,903**	**117,385**

	Gross amount		Specific Impairment		Net amount	
(in EUR million)	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017
Analysis of impaired financial assets						
Customer loans and advances	1,062	876	(319)	(256)	743	620
Financial assets available-for-sale	92	77	(47)	(42)	45	35
Variable revenue instruments	*92*	*77*	*(47)*	*(42)*	*45*	*35*
Other accounts receivable and other assets (note 2.7)	2	1	(2)	(1)	0	0
TOTAL	**1,155**	**954**	**(367)**	**(299)**	**788**	**655**
Analysis of performing and impaired financial assets						
Interbank loans and advances	7,146	6,014	0	0	7,146	6,014
Customer loans and advances	119,578	99,479	(319)	(256)	119,258	99,223
Financial assets held to maturity	1,918	1,750	0	0	1,918	1,750
Financial assets available-for-sale	16,595	10,871	(47)	(42)	16,548	10,830
Fixed revenue instruments	*16,338*	*10,642*	*0*	*0*	*16,338*	*10,642*
Variable revenue instruments	*257*	*229*	*(47)*	*(42)*	*210*	*188*
Other accounts receivable and other assets (note 2.7)	235	551	(2)	(1)	233	550
TOTAL FINANCIAL ASSETS	**145,472**	**118,665**	**(367)**	**(299)**	**145,104**	**118,367**
Collective impairment					(413)	(327)
NET TOTAL	**145,472**	**118,665**	**(367)**	**(299)**	**144,691**	**118,040**

2.12. Reclassification of financial assets (IAS 39 amended) and transfers of financial assets available for sale to financial assets held to maturity

A. Reclassification of financial assets (IAS 39 amended)

On 1st October 2008, Dexia Crédit Local decided to apply the amendment of IAS 39 and IFRS 7 "Reclassification of Financial Assets" for some assets, and opted to reclassify certain assets from "Financial assets held for trading" to "Financial assets available for sale" or "Loans and advances", as well as from "Financial assets available for sale" to "Loans and advances".

On 1st October 2014, Dexia Crédit Local also reclassified bonds from "Financial assets available for sale" to "Loans and advances".

Figures are those of the consolidated companies at the date of reclassification of the assets and still in the scope of consolidation at the closing date.

	31/12/2016						
(in EUR million)	**Carrying amount of assets reclassified, at the date of reclassification**	**Carrying amount of reclassified assets as at 31 December 2016**	**Fair value of reclassified assets as at 31 December 2016**	**Amount not taken through profit or loss due to reclassification**	**Amount not taken through AFS Reserve due to reclassification**	**Premium/ Discount amortisation through net income**	**Premium/ Discount amortisation through AFS reserve**
From "Financial assets held for trading" to "Loans and advances"	3,565	1,109	1,048	(61)		2	
From "Financial assets available for sale" to "Loans and advances"	50,120	43,089	39,194		(3,895)		150

	31/12/2017						
(in EUR million)	**Carrying amount of assets reclassified, at the date of reclassification**	**Carrying amount of reclassified assets as at 31 December 2017**	**Fair value of reclassified assets as at 31 December 2017**	**Amount not taken through profit or loss due to reclassification**	**Amount not taken through AFS Reserve due to reclassification**	**Premium/ Discount amortisation through net income**	**Premium/ Discount amortisation through AFS reserve**
From "Financial assets held for trading" to "Loans and advances"	3,565	458	440	(18)		2	
From "Financial assets available for sale" to "Loans and advances"	50,120	35,122	31,858		(3,264)		166

IMPACT OF THE RECLASSIFICATION ON EQUITY AND RESULT

a. Transfer from "Financial assets held for trading" to "Loans and advances"

The difference between the carrying amount at the reclassification date and the reimbursement amount is amortised over the remaining life of the reclassified asset. The impact of this amortisation on net income for the period is disclosed in the column "Premium/discount amortisation through profit or loss".

At closing date, the difference between the carrying amount of reclassified assets and their fair value represents the cumulative changes in fair value from reclassification date until the closing date. It also includes the cumulative amortisation of the premium or discount since reclassification. In 2017 as well as in 2016, the difference is negative as spreads have increased.

b. Transfer from "Financial assets available for sale" to "Loans and advances"

The Dexia Crédit Local Group's available-for-sale portfolio is very specific as it consists of securities with very long maturities, resulting in significant changes in value following small shifts in spreads. The impact of the transfer on the cost of risk consists in the net amount of accruals and use of collective as well as specific provisions.

In 2017, a EUR 35 million income was recorded as collective impairment (in 2016, an income of EUR 14 million).

When there is objective evidence of impairment for a financial asset initially classified in "Financial assets available for sale" but reclassified in "Loans and advances" in accordance with the amended IAS 39, any difference between the carrying amount and the net present value of expected future cash flows, discounted at the effective interest rate as at the reclassification date is recognised as an impairment loss. Consequently, any unamortised outstanding amount recognised in the available-for-sale reserve is also recognised as an impairment loss. This category mainly includes non-economic losses that would have been reversed in the future through net interest income.

The difference between the carrying amount of a reclassified asset and its fair value reflects the evolution of credit and liquidity spreads on the markets.

c. Impact of reclassifications on the interest margin

For assets transferred from "Financial assets available for sale" to "Loans and advances", the amortisation of the premium/discount on the asset is offset by the amortisation of the fair value reserve frozen at the time of reclassification, without any resulting impact on net interest income.

The impact on the interest margin due to reclassification of "Financial assets held for sale" to "Loans and advances" amounts to EUR 2 million in 2017 (EUR 2 million in 2016).

B. Transfers of financial assets available for sale to financial assets held to maturity

At the beginning of December 2016, the Group transferred certain sovereign bonds from the category "Financial assets available for sale" to the category "Financial assets held to maturity", for which it had a clear change of intent and ability to hold them until their maturity. The reclassifications were made at the fair value of the assets at the reclasification date. The effective interest rate at reclassification date ranged from 1.4% to 8.0%.

The reimbursement amount of those assets reclassified amounted to EUR 1.5 billion. If those financial assets had not been reclassified, a positive amount of EUR +174 million would have been recognised for those assets, in shareholders' equity, in "Gains and losses directly recognised in equity" (EUR -42 million as at 31/12/2016).

A gross amount of EUR 577 million of available for sale reserve was frozen and will be amortised on the residual maturity of the assets, without any impact in profit and loss. Indeed, the amortisation of the premium/discount on the asset is offset by the symetrical amortisation of the fair value reserve frozen at the time of reclassification. As at 31 December 2017, this amortisation amounted to EUR 29 million (EUR 2 million as at 31/12/2016).

			31/12/2016		
(in EUR million)	Carrying amount of assets transferred, at the reclassification date	Carrying amount of transferred assets as at 31 December 2016	Fair value of transferred assets as at 31 December 2016	Amount not taken through AFS Reserve due to transfer	Amortisation of premium/discount in gains and losses directly recognised in equity
	1,696	1,699	1,657	(42)	2

			31/12/2017		
(in EUR million)	Carrying amount of assets transferred, at the reclassification date	Carrying amount of transferred assets as at 31 December 2017	Fair value of transferred assets as at 31 December 2017	Amount not taken through AFS Reserve due to transfer	Amortisation of premium/discount in gains and losses directly recognised in equity
	1,696	1,685	1,859	174	29

2.13. Transfer of financial assets

Dexia Crédit Local enters into transactions as repurchase agreements, securities lending agreements or total return swaps, in which the Group transfers financial assets, mainly loans and advances or debt securities, but retains substantially all of the risks and rewards.
Due to this retention, the transferred financial assets are not derecognised and the transfers are accounted for as secured financing transactions.

	31/12/2016		31/12/2017	
(in EUR million)	Carrying amount of assets	Carrying amount of associated liabilities	Carrying amount of assets	Carrying amount of associated liabilities
Loans and advances not derecognised due to following transactions:				
Repurchase agreements	19,258	18,206	18,422	16,349
TOTAL	**19,258**	**18,206**	**18,422**	**16,349**
Financial assets available for sale not derecognised due to following transactions:				
Repurchase agreements	11,252	11,119	9,792	9,355
TOTAL	**11,252**	**11,119**	**9,792**	**9,355**
TOTAL	**30,510**	**29,325**	**28,214**	**25,704**

3. Notes on the liabilities

(some amounts may not add up due to roundings off)

3.0. Central banks (Item I - Liabilities)

(in EUR million)	31/12/2016	31/12/2017
Central banks[1]	690	0
TOTAL	**690**	**0**

(1) As the situation of the Group has improved, the use of refinancing facilities from Central Banks was no longer necessary and this more expensive source of financing was therefore reduced.

3.1. Financial liabilities at fair value through profit or loss (Item II - Liabilities)

(in EUR million)	31/12/2016	31/12/2017
Liabilities designated at fair value	1,797	1,410
Derivatives (see note 4.1)	16,878	12,782
TOTAL	**18,675**	**14,192**

a. Analysis by nature of liabilities held for trading

Nil.

b. Analysis by nature of liabilities designated at fair value

(in EUR million)	31/12/2016	31/12/2017
Non subordinated liabilities	1,797	1,410
TOTAL	**1,797**	**1,410**

c. Analysis by maturity and interest rate:

see note 7.4. and 7.6.

d. Analysis of fair value: see note 7.1. and 7.2.h for the own credit risk.

The "Fair Value Option" (FVO), for financial liabilities is mainly used in the following situation:
By Dexia Financial Products Inc and FSA Global Funding Ltd for liabilities where the hedge accounting requirements are not met or there is a risk that they will not be met, the FVO is used as an alternative in order to reduce volatility in profit or loss.
The following types of liabilities are subject to the FVO classification:
a) Fixed rate liabilities that are highly customised funding contracts tailored to the specific needs of the investor (GIC activities).
Regarding collaterised liabilities by assets, the DVA spread is the average of spreads of collateral given as guarantee. Regarding non secured liabilities, they benefit from both Dexia and Assured monoliner guarantee. In this case, the own credit spread (DVA) is the lower of Dexia DVA spread and the Assured Guaranty spread.
b) FSA Global Funding fixed rate liabilities.
The own credit spread is Dexia's DVA spread.

As at 31 December 2017, the cumulative change in fair value attributable to the own credit risk of financial liabilities designated at fair value amounted to EUR -81 million. This amount is booked in Gains and losses directly recognised in equity.

3.2. Interbank borrowings and deposits (Item IV - Liabilities)

a. Analysis by nature

(in EUR million)	31/12/2016	31/12/2017
Demand deposits	21	88
Repurchase agreements	30,647	24,682
Other debts	10,182	6,990
TOTAL	**40,850**	**31,760**

b. Analysis by maturity and interest rate: see note 7.4. and 7.6.

c. Analysis of fair value: see note 7.1.

3.3. Customer borrowings and deposits (Item V - Liabilities)

a. Analysis by nature

(in EUR million)	31/12/2016	31/12/2017
Demand deposits	1,955	795
Term deposits	4,807	1,208
Total customer deposits	**6,762**	**2,003**
Repurchase agreements	2,614	3,781
Other borrowings	1,402	642
Total customer borrowings	**4,016**	**4,423**
TOTAL	**10,778**	**6,426**

b. Analysis by maturity and interest rate: see note 7.4. and 7.6.

c. Analysis of fair value: see note 7.1.

3.4. Debt securities (Item VI - Liabilities)

a. Analysis by nature

(in EUR million)	31/12/2016	31/12/2017
Certificates of deposit	13,609	10,085
Non-convertible bonds(1)	84,915	79,569
TOTAL(2)	**98,524**	**89,654**

(1) As at 31 December 2017, the amount of covered bonds was EUR 15.4 billion (EUR 17.6 billion in 2016). See note 7.3. Collateral.
(2) As at 31 December 2017, the total amount issued with the State guarantee was EUR 67.6 billion (EUR 71.4 billion in 2016).

b. Analysis by maturity and interest rate: see note 7.4. and 7.6.

c. Analysis of fair value: see note 7.1.

3.5. Tax liabilities (Item VIII and IX - Liabilities)

(in EUR million)	31/12/2016	31/12/2017
Current tax liabilities	7	1
Deferred tax liabilities (see note 4.2.)	58	23

3.6. Accruals and other liabilities (Item X - Liabilities)

(in EUR million)	31/12/2016	31/12/2017
Other liabilities	467	407
Cash collateral	3,966	3,524
TOTAL	**4,434**	**3,931**

Other liabilities

(in EUR million)	31/12/2016	31/12/2017
Accrued costs	27	42
Deferred income	24	10
Grants	64	58
Salaries and social charges (payable)	9	6
Other taxes	15	18
Other accounts payable and other liabilities	328	273
TOTAL	**467**	**407**

3.7. Provisions (Item XIII - Liabilities)

a. Analysis by nature

(in EUR million)	31/12/2016	31/12/2017
Litigation claims[1]	237	194
Restructuring	5	17
Defined benefit plans	10	4
Other long-term employee benefits	5	4
Provision for off-balance sheet credit commitments	4	1
Onerous contracts	2	1
TOTAL	**264**	**222**

(1) This item includes a provision related to desensitisation of structured credits in France.

b. Movements

(in EUR million)	Litigation claims [1]	Restructuring	Pensions and other employee benefits	Provision for off-balance sheet credit commitments	Onerous contracts	Total
AS AT 1 JANUARY 2016	**202**	**7**	**11**	**6**	**3**	**229**
Additions	73	3	5	1	0	83
Unused amounts reversed	(38)	(4)	(2)	(3)	0	(47)
Amounts utilized during the year	0	(1)	(3)	0	(1)	(5)
Actuarial gains and losses	0	0	3	0	0	3
AS AT 31 DECEMBER 2016	**237**	**5**	**15**	**4**	**2**	**264**

(1) We refer to the section Litigation in the chapter Risk Management of the Management Report.

(in EUR million)	Litigation claims[1]	Restructuring	Pensions and other employee benefits	Provision for off-balance sheet credit commitments	Onerous contracts	Total
AS AT 1 JANUARY 2017	**237**	**5**	**15**	**4**	**2**	**264**
Additions	4	18	3	0	0	25
Unused amounts reversed	(47)	(4)	(3)	(3)	0	(57)
Amounts utilized during the year	0	(2)	(1)	0	(1)	(4)
Actuarial gains and losses	0	0	(3)	0	0	(3)
Transfers in liabilities included in disposal groups held for sale	0	0	(1)	0	0	(1)
Other transfers	0	0	(2)	0	0	(3)
AS AT 31 DECEMBER 2017	**194**	**17**	**8**	**1**	**1**	**222**

(1) We refer to the section Litigation in the chapter Risk Management of the Management Report.

c. Provisions for pension and other long term benefits

After the sale of most of its operating subsidiaries, Dexia Crédit Local holds only several subsidiaries with significant staff number in a few countries. Except commitments for legal pension and for defined contribution plans, commitments for defined benefit plans are limited.
They mainly concern retirement allowances in France and pension plans in Italy.

Due to the downsizing of the group, the commitments decrease accordingly and the DBO (defined benefit obligation, long-term employee benefits and post-retirement obligations) represents less than 5% of consolidated equity. The amount of actuarial liabilities less the fair value of assets for retirement and other employee benefits is EUR 8 million as at 31 December 2017 and 14 million as at 31 December 2016.

3.8. Subordinated debt (Item XIV - Liabilities)

a. Analysis by nature

Convertible subordinated debt
Nil.

Non-convertible subordinated debts

(in EUR million)	31/12/2016	31/12/2017
Perpetual subordinated notes		
Other subordinated notes	482	160
TOTAL	**482**	**160**

b. Reconciliation of liabilities arising from financing activities

(in EUR million) 01/01/16	Cash flows	Non-cash changes: Changes arising from obtaining or losing control of subsidiaries	Translation adjustment	Fair value changes	Other changes	31/12/2016
492	(5)	0	(2)	(2)	(1)	482

(in EUR million) 01/01/17	Cash flows	Non-cash changes: Changes arising from obtaining or losing control of subsidiaries	Translation adjustment	Fair value changes	Other changes[(1)]	31/12/2017
482	(282)	0	(4)	(1)	(35)	160

(1) of which EUR 38 million have been transferred in "XI. Liabilities included in disposal groups held for sale"

c. Analysis by maturity and interest rate: see notes 7.4 and 7.6

d. Analysis of fair value: see note 7.1

e. Detailed information

Currency	Due	Amount in millions	a) Circumstances for early redemption b) Conditions for subordination c) Conditions for convertibility	Indemnity conditions (in %)
EUR	12/02/2019	106.4	a) Possible reimbursement for each date of payment on interest from 12/02/2014 after agreement of the ACPR b) Repayment at par after all creditors, but before loans and securities c) None	TF 4.375 From 12/02/14 Euribor 3M+72bps
EUR	29/10/2018	19.7	a) Possible reimbursement for each date of payment on interest from 02/07/2013 after agreement of the ACPR b) Repayment at par after all creditors, but before loans and securities c) None	EURIBOR 3M +0.15 From 02/07/2013 EURIBOR 3M +0.5
EUR	1/06/2018	7.8	a) No early redemption b) No specific conditions c) None	5.570
EUR	1/06/2018	6.5	a) No early redemption b) No specific conditions c) None	5.625
ILS	1/01/2019	150.0	a) No possibility for Dexia Israel to early repay the bonds, except following prior and written agreement of the Bank of Israel. In case of default, there is an acceleration clause for the investors but subject to the subordination clause. b) The deferred bonds are not used as deposits and the rights attached to them are deferred from the claims of all other creditors except for the rights of creditors with similar deferred bonds. The deferred bonds shall not be pledged as a collateral for a loan granted by Dexia Israel nor its subsidiaries and they are not insured with collaterals. No early redemption and no changes in the terms can be implemented unless a prior and written agreement was received from the Bank of Israel. c) None	4.85% linked to CPI

Currency	Due	Amount in millions	a) Circumstances for early redemption b) Conditions for subordination c) Conditions for convertibility	Indemnity conditions (in %)
GBP	15/10/2058	11.5	**a) Early Redemption in whole** The Notes are redeemable in whole in any of the following circumstances: (i) at the option of the Issuer following the occurrence of a Tax Redemption Event; (ii) at the option of the Issuer if the aggregate Adjusted Principal Balance of the outstanding Notes is less than 10% of the initial Principal Balance of all of the Notes; (iii) following early termination of the Credit Default Swap; (iv) following the early termination of the Cash Collateral Agreement or the Repo Agreement (if any) in circumstances where it is not replaced with an arrangement satisfactory to the Rating Agencies; or following the occurrence of a Note Event of Default and declaration by the Trustee that the Notes are due and repayable, the date designated for the redemption of the Notes upon the occurrence of such circumstances being an Early Redemption Date. **Early Redemption in Part** If the Actual Reference Portfolio Amount is an amount less than the then aggregate Adjusted Principal Balance of the Notes (such shortfall being the "Difference"), then the Issuer on any Note Payment Date, and provided that the Difference is a positive number equal or greater than GBP 1,000,000 (one million) may elect to redeem the Notes, in Order of Seniority, in part in an amount equal to such Difference. b) After enforcement of the security for the Notes under the Security Documents, payments of principal and interest on the Class A Notes will be made in priority to payments of principal and interest on the Class B Notes and the Class C Notes. After enforcement of the security for the Notes under the Security Documents, payments of principal and interest on the Class B Notes will be made in priority to payments of principal and interest on the Class C Notes. c) None	up to 15/01/2022 : LIBOR +0.3 % from 15/01/2022 to redemption date : LIBOR +0.58 %
GBP	15/10/2058	5.5	**a) Early Redemption in whole** The Notes are redeemable in whole in any of the following circumstances: (i) at the option of the Issuer following the occurrence of a Tax Redemption Event; (ii) at the option of the Issuer if the aggregate Adjusted Principal Balance of the outstanding Notes is less than 10% of the initial Principal Balance of all of the Notes; (iii) following early termination of the Credit Default Swap; (iv) following the early termination of the Cash Collateral Agreement or the Repo Agreement (if any) in circumstances where it is not replaced with an arrangement satisfactory to the Rating Agencies; or following the occurrence of a Note Event of Default and declaration by the Trustee that the Notes are due and repayable, the date designated for the redemption of the Notes upon the occurrence of such circumstances being an Early Redemption Date. **Early Redemption in Part** If the Actual Reference Portfolio Amount is an amount less than the then aggregate Adjusted Principal Balance of the Notes (such shortfall being the "Difference"), then the Issuer on any Note Payment Date, and provided that the Difference is a positive number equal or greater than GBP 1,000,000 (one million) may elect to redeem the Notes, in Order of Seniority, in part in an amount equal to such Difference. b) After enforcement of the security for the Notes under the Security Documents, payments of principal and interest on the Class A Notes will be made in priority to payments of principal and interest on the Class B Notes and the Class C Notes. After enforcement of the security for the Notes under the Security Documents, payments of principal and interest on the Class B Notes will be made in priority to payments of principal and interest on the Class C Notes. c) None	up to 15/01/2022 : LIBOR +0.39 % from 15/01/2022 to redemption date: LIBOR + 0.76 %

3.9 Information on Equity

a. Capital stock

The share capital of Dexia Crédit Local is represented by 279,213,332 shares with a nominal value of EUR 1.

b. Super-subordinated perpetual note

In 2005, Dexia Crédit Local issued EUR 700 million in super-subordinated perpetual notes. The residual outstanding amounts to EUR 56 millions.

c. Adjustment on 2017 opening equity

As permitted by IFRS9, since 1st January 2017, Dexia recognises the own credit risk of its debts at fair value in the gains and losses directly recognised in equity. The stock of own credit risk at 31 December 2016 (USD -155 million) was therefore transferred into gains and losses directly recognised in equity.

c. Other movements

Following the vote of Dexia Israel shareholders' meeting of 30 March 2017, Dexia Crédit Local transferred 6.46% of its shares to its co-shareholder ULAI (Union of Local Authorities in Israel) and now holds 58.89% of Dexia Israel. Considering that the change of ownership does not result in a loss of control of the subsidiary, the transaction has been recorded in shareholders' equity, in accordance with IFRS: Consolidated reserves – Group share and Translation adjustments – Group share decreased by EUR 10.8 million and respectively by EUR 3.4 million in favor of minority interests.

4. Other Notes on the balance sheet

(some amounts may not add up due to roundings off)

4.1. Derivatives

a. Analysis by nature

	31/12/2016		31/12/2017	
(in EUR million)	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through profit or loss (see notes 2.1 and 3.1)	**16,415**	**16,878**	**12,509**	**12,782**
Derivatives designated as fair value hedges	6,151	29,306	4,517	24,452
Derivatives designated as cash flow hedges	199	1,805	185	1,406
Derivatives designated as portfolio hedges	480	2,685	283	2,000
Hedging derivatives	**6,830**	**33,796**	**4,985**	**27,858**
TOTAL DERIVATIVES	**23,245**	**50,674**	**17,494**	**40,640**

b. Detail of derivatives at fair value through profit or loss

	31/12/2016				31/12/2017			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
(in EUR million)	To receive	To deliver			To receive	To deliver		
Interest rate derivatives	**215,260**	**214,243**	**14,990**	**15,722**	**197,039**	**196,510**	**11,443**	**11,983**
OTC options	1,239	470	7	23	1,091	372	2	19
OTC other	213,434	213,505	14,983	15,699	195,858	195,576	11,441	11,964
Organised market other	587	268	0	0	90	562	0	0
Foreign exchange derivatives	**21,862**	**22,071**	**949**	**1,001**	**21,884**	**21,848**	**848**	**676**
OTC options	302	302	54	55	0	0	0	0
OTC other	21,560	21,769	895	946	21,884	21,848	848	676
Credit derivatives	**4,297**	**1,355**	**475**	**155**	**3,372**	**1,237**	**218**	**123**
Credit default swap	4,297	1,355	475	155	3,372	1,237	218	123
TOTAL	**241,419**	**237,669**	**16,415**	**16,878**	**222,295**	**219,595**	**12,509**	**12,782**

c. Detail of derivatives designated as fair value hedges

	31/12/2016				31/12/2017			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
(in EUR million)	To receive	To deliver			To receive	To deliver		
Interest rate derivatives	**105,900**	**105,945**	**5,512**	**27,798**	**97,696**	**97,726**	**4,290**	**23,220**
OTC options	54	16	0	6	44	15	0	4
OTC other	105,846	105,929	5,512	27,792	97,652	97,711	4,290	23,216
Equity derivatives(1)	**10**	**10**	**1**	**0**	**0**	**0**	**0**	**0**
OTC options	0	0	0	0	0	0	0	0
OTC other	10	10	1	0	0	0	0	0
Foreign exchange derivatives	**7,851**	**7,830**	**638**	**1,509**	**6,501**	**6,504**	**227**	**1,231**
OTC other	7,851	7,830	638	1,509	6,501	6,504	227	1,231
TOTAL	**113,761**	**113,785**	**6,151**	**29,306**	**104,197**	**104,230**	**4,517**	**24,452**

(1) This position includes hedging derivatives for securities with revenues partly linked to the evolution of a basket of shares.

d. Detail of derivatives designated as cash flow hedges

	31/12/2016				31/12/2017			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
(in EUR million)	To receive	To deliver			To receive	To deliver		
Interest rate derivatives	**3,373**	**3,393**	**49**	**1,243**	**3,021**	**3,035**	**31**	**1,016**
OTC other	3,373	3,393	49	1,243	3,021	3,035	31	1,016
Foreign exchange derivatives	**1,102**	**1,088**	**150**	**563**	**891**	**918**	**154**	**389**
OTC other	1,102	1,088	150	563	891	918	154	389
TOTAL	**4,475**	**4,481**	**199**	**1,805**	**3,912**	**3,953**	**185**	**1,405**

e. Detail of derivatives designated as hedges of a net investment in a foreign entity

Nil.

f. Detail of derivatives designated as portfolio hedges

	31/12/2016				31/12/2017			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
(in EUR million)	To receive	To deliver			To receive	To deliver		
Portfolio fair value hedges of interest rate risk(1)	16,442	16,466	480	2,685	13,130	13,145	283	2,000
TOTAL	**16,442**	**16,466**	**480**	**2,685**	**13,130**	**13,145**	**283**	**2,000**

(1) In 2017, unwinding of swaps related to the asset disposal program.

4.2. Deferred taxes

a. Analysis by nature

(in EUR million)	31/12/2016	31/12/2017
Deferred tax assets	2,080	1,777
Unrecognised deferred tax assets	(2,048)	(1,748)
Recognised deferred tax assets (see note 2.6) (1)	**32**	**29**
Deferred tax liabilities (voir note 3.5) (1)	**(58)**	**(23)**
TOTAL	**(26)**	**6**

(1) Deferred tax assets and liabilities are netted out when they concern the same tax entity.

The effects of movements in deferred tax on net income and on unrealised or deferred gains and losses are analysed in note 5.11 "Income tax" and in the "Consolidated statement of comprehensive income" respectively.

b. Movements

(in EUR million)	2016	2017
AS AT 1 JANUARY	**(52)**	**(26)**
Charge/credit recognised in the income statement : "Income tax"(1)	8	(3)
Effect of change in tax rates - impact on the income statement		8
Movements directly recognised in shareholders' equity	21	22
Translation adjustment	(2)	4
Other movements	(1)	
AS AT 31 DECEMBER	**(26)**	**6**

(1) In 2016, the main source of the increase are the losses related to the transfer of assets to Dexia Crédit Local Paris in the framework of closure and decrease in the activity of the Group's subsidiaries and branches.

c. Deferred taxes

(in EUR million)	31/12/2016	31/12/2017
Deferred tax assets	2,080	1,777
Deferred tax liabilities	(58)	(23)
DEFERRED TAXES	**2,022**	**1,754**

Deferred taxes coming from assets	2016		2017	
(in EUR million)	Total	of which, change through profit or loss	Total	of which, change through profit or loss
Loans (and loan loss provisions)	(3,249)	(707)	(2,136)	1,118
Securities	(1,844)	(681)	(1,380)	812
Derivatives	(1,251)	96	(1,279)	52
Tangible fixed assets and intangible assets	2	12	0	(2)
Accruals and other assets	4	(2)	0	0
TOTAL	**(6,338)**	**(1,282)**	**(4,795)**	**1,980**

Deferred taxes coming from liabilities (in EUR million)	2016 Total	2016 of which, change through profit or loss	2017 Total	2017 of which, change through profit or loss
Derivatives	5,062	339	4,123	(937)
Borrowings, deposits and debt securities	1,407	7	1,044	(361)
Provisions	209	(1)	141	(65)
Pensions	5	0	6	(1)
Non-deductible provisions	(12)	(12)	(9)	3
Accruals and other liabilities	(115)	(3)	(39)	40
TOTAL	**6,556**	**330**	**5,266**	**(1,321)**

Deferred taxes coming from other elements (in EUR million)	2016 Total	2016 of which, change through profit or loss	2017 Total	2017 of which, change through profit or loss
Tax losses carried forward	1,805	180	1,283	(479)
Entity with special tax status	(1)	5	0	1
TOTAL	**1,804**	**185**	**1,283**	**(478)**
TOTAL DEFERRED TAXES	**2,022**		**1,754**	

d. Expiry date of unrecognised deferred tax assets

(in EUR million)

Nature	Over 5 years	Unlimited maturity	Total
Temporary difference		(306)	(306)
Tax losses carried forward[1]	(545)	(1,197)	(1,742)
TOTAL	**(545)**	**(1,503)**	**(2,048)**

(1) Amounts have been reviewed.

(in EUR million)	31/12/2017			
Nature	Between 1 to 5 years	Over 5 years	Unlimited maturity	Total
Temporary difference	0	0	(512)	(512)
Tax losses carried forward	(1)	(338)	(897)	(1,236)
TOTAL	**(1)**	**(338)**	**(1,409)**	**(1,748)**

4.3. Offsetting financial assets and financial liabilities

The following table presents the amounts of financial assets and liabilities before and after offsetting.

The column "Gross amounts set off on the balance sheet" discloses the amounts offset in accordance with the IAS 32 criteria described in note "Accounting principles and rules governing the consolidated financial statements". Amounts set off are related to Dexia's derivative instruments and repurchase agreements traded with clearing houses and the amounts are non-significant.

The column "Impact of Master Netting agreements and similar agreements" includes the amounts of financial instruments that are subject to an enforceable master netting arrangement or similar agreement but which do not meet the offsetting criteria defined by IAS 32. This is the case of Dexia's transactions that are subject to ISDA Master Netting Agreements and Global Master Repurchase Agreements for which offsetting can only be performed in case of default, insolvency or bankruptcy of one of the counterparties.

The Dexia Group Master Netting Agreement ("DGMNA") dated as of 2 November 2009 had been concluded between Dexia SA/NV, Banque Internationale à Luxembourg S.A. (formerly known as Dexia Banque Internationale à Luxembourg S.A.), Belfius Bank SA/NV (formerly known as Dexia Bank Belgium SA/NV), Dexia Crédit Local S.A. and Dexia Crediop SpA.

The DGMNA permits netting or "Set-Off" amounts owed under transactions governed by different agreements, including one or more ISDA Master agreements or other trading agreements ("Principal Agreements") between the parties to the DGMNA. The DGMNA essentially aims at allowing netting in the event of a default on behalf of one of the parties, and therefore permits netting only when the transactions under the Principal Agreements are accelerated, terminated, liquidated or canceled (a so-called "Close Out" situation).

When a party is in default under the DGMNA, each other non defaulting Party may elect to Close Out all of the transactions under each Principal Agreement to which such non defaulting Party is a party.

Banque Internationale à Luxembourg and Belfius Banque SA/NV are no longer part of the DGMNA since 29 January 2014, respectively 16 November 2015.

The columns "Cash collateral" and "Financial instruments received or given as collateral" disclose the amounts related to financial collateral. They mainly include Dexia's guarantee deposits and securities received or given as collateral and disclosed at their fair value. These guarantees can only be exercised in case of default, insolvency or bankruptcy of one of the counterparties.

Dexia includes instruments at their recognised amounts, however the amount of collateral is limited to the amount of the guaranteed asset or liability.

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a. Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

(in EUR million)	31/12/2016 Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Related amounts not set off on the balance sheet: Impact of Master Netting Agreements and similar agreements	Cash collateral received	Financial instruments received as collateral	Net amounts
Derivatives	22,416	(324)	22,092	(13,069)	(2,555)	(62)	6,406
Reverse repurchase and similar agreements	2,389	0	2,389	0	(9)	(2,380)	0
TOTAL FINANCIAL ASSETS IN SCOPE OF OFFSETTING DISCLOSURES	**24,805**	**(324)**	**24,481**	**(13,069)**	**(2,564)**	**(2,442)**	**6,406**

b. Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

(in EUR million)	31/12/2016 Gross amounts of financial liabilities	Gross amounts set off on the balance sheet	Net amounts of financial liabilities presented on the balance sheet	Related amounts not set off on the balance sheet: Impact of Master Netting Agreements and similar agreements	Cash collateral given	Financial instruments given as collateral	Net amounts
Derivatives	50,872	(324)	50,548	(13,069)	(34,706)	0	2,774
Repurchase and similar agreements	32,283	0	32,283	0	(326)	(30,372)	1,585
TOTAL FINANCIAL LIABILITIES IN SCOPE OF OFFSETTING DISCLOSURES	**83,155**	**(324)**	**82,831**	**(13,069)**	**(35,032)**	**(30,372)**	**4,359**

c. Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

(in EUR million)	31/12/2017 Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Related amounts not set off on the balance sheet: Impact of Master Netting Agreements and similar agreements	Cash collateral received	Financial instruments received as collateral	Net amounts
Derivatives	16,933	(347)	16,586	(9,834)	(1,765)	(23)	4,964
Reverse repurchase and similar agreements	2,980	0	2,980	(550)	(181)	(2,248)	0
TOTAL FINANCIAL ASSETS IN SCOPE OF OFFSETTING DISCLOSURES	**19,913**	**(347)**	**19,566**	**(10,384)**	**(1,946)**	**(2,271)**	**4,964**

d. Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

(in EUR million)	31/12/2017 Gross amounts of financial liabilities	Gross amounts set off on the balance sheet	Net amounts of financial liabilities presented on the balance sheet	Related amounts not set off on the balance sheet: Impact of Master Netting Agreements and similar agreements	Cash collateral given	Financial instruments given as collateral	Net amounts
Derivatives	40,847	(347)	40,500	(9,834)	(27,050)	0	3,616
Repurchase and similar agreements	28,010	0	28,010	(550)	(168)	(27,291)	1
TOTAL FINANCIAL LIABILITIES IN SCOPE OF OFFSETTING DISCLOSURES	**68,857**	**(347)**	**68,510**	**(10,384)**	**(27,218)**	**(27,291)**	**3,617**

4.4. Related-party transactions

a. Related-party transactions

	Parent company (Dexia)	
(in EUR million)	**2016**	**2017**
Borrowings	612	630
Interest expense on borrowings	0	2

Since 31 December 2012, as a result of the capital increase subscribed by the Belgian and French States to the capital increase initiated by Dexia, Dexia Crédit Local's parent company, these shareholders have become the only two shareholders having a significant influence on Dexia Crédit Local.

Group transactions with these shareholders are described in 4.4 C. below. Persuant to IAS 24 § 25, the detail of loans, borrowings or commitments with the States Shareholders are not subject to a separate disclosure.
Loans to the key management have been granted at market conditions and their amounts are not significant.

b. Compensation of key management personnel (*)

(in EUR million)	2016	2017
Short-term benefits (1)	2.6	1,9
Termination contract benefits	0.9	0,5

(*) Key management personnel are members of the Board of Directors and of the Management Board.

(1) Includes salary, bonus and other benefits

c. Transactions with the Belgian, French and Luxembourg States

Guarantee mechanism in favour of Dexia's financing

2013 guarantee agreement

On 24 January 2013, the French, Belgian and Luxembourg States and Dexia and Dexia Crédit Local ("DCL") entered into a Guarantees Issuance Agreement, and granted an Independent Guarantee pursuant to such Guarantees Issuance Agreement in favour of Dexia Crédit Local (main issuer and main operating entity of the Group) pursuant to the Belgian royal decree of 19 December 2012 amending the royal decree of 18 October 2011 granting a State guarantee for certain loans of Dexia and Dexia Crédit Local SA" (as ratified by the law of 17 June 2013"*portant des dispositions fiscales et financières et des dispositions relatives au développement durable*"), the French Enabling Law, as amended by the amending finance law n°2012-1510 of 29 December 2012 and the Luxembourg Enabling Law.

Pursuant to this 2013 Guarantee, the three States guarantee severally, but not jointly, the performance by DCL of their repayment obligations resulting from certain financings provided by qualified, institutional or professional investors (within the meaning of the Guarantee), provided that these obligations arise from certain financings contracted or issued in the form of securities and financial instruments, deposits and borrowings (with a maximum maturity of ten years) between 24 January 2013 and 31 December 2021.
This Guarantee is effective immediately. It replaces the 2011 Temporary Guarantee which is terminated without retroactive effect and without prejudice to any rights arising pursuant to guaranteed obligations entered into or issued prior to the effectiveness of the Guarantee.

The States' several but not joint guarantee pursuant to this Agreement may not exceed a maximum aggregate limit of EUR 85 billion in principal, it being understood that the amounts which are so capped include outstanding guaranteed obligations pursuant to the Guarantee, the 2011 Temporary Guarantee, or any other guarantee granted pursuant to the Guarantees Issuance Agreement but exclude outstanding guaranteed obligations pursuant to the 2008 Guarantee Agreement described below.

The States guarantee the repayment obligations in the following proportion:
(i) 51.41% for the Belgian State (corresponding to a maximum amount of EUR 43.6985 billion);
(ii) 45.59% for the French State (corresponding to a maximum amount of EUR 38.7515 billion); and
(iii) 3.0% for the Luxembourg State (corresponding to a maximum amount of EUR 2.55 billion).

Pursuant to the Guarantee Issuance Agreement, the following guarantee fee is due to the States:
(i) an upfront commission equal to 0.50% of the EUR 85 billion limit, less the upfront commission already paid in connection with the 2011 Temporary Guarantee i.e. a balance of EUR 150 million.
(ii) a monthly fee, calculated at a rate per annum of 0.05% on the amount outstanding under the guaranteed obligations, both on the pre-existing guaranteed amounts outstanding under the 2011 Temporary Guarantee and the new guaranteed amounts outstanding under guarantees issued in accordance with the Guarantees Issuance Agreement (it being understood that such monthly fee shall, with respect to the portion of the outstanding amount of the guaranteed obligations that would be held by BDF Gestion SA or by the Banque de France, the National Bank of Belgium, be calculated in accordance with the 2011 Temporary Guarantee Agreement (as long as the ECB accepts the all-in fee principle).

The outstanding amount of the guaranteed debt pursuant to the 2013 guarantee agreement is disclosed on a daily basis on the website of the National Bank of Belgium (http://www.nbb.be/DOC/DQ/warandia/index.htm).

As at 31 December 2017, the total outstanding amount of obligations guaranteed by the States pursuant to the 2013 Guarantee Agreement was EUR 68 billion. In 2016, Dexia paid a total monthly remuneration of EUR 38 million to the States for these guarantees.

Guarantee for the financial products portfolio

Dexia entered into an agreement for the sale of the insurance activities of Financial Security Assurance (FSA) to Assured Guaranty Ltd (Assured) on 14 November 2008. The sale was completed on 1 July 2009. The Financial Products activity of FSA, managed by FSA Asset Management (FSAM), was carved out of the transaction and remains under Dexia's ownership.
In that context, the Belgian and French States agreed to provide a guarantee on the Financial Products assets portfolio. This guarantee was approved by the European Commission on 13 March 2009. The terms of this guarantee are set out in two agreements, the First Demand Guarantee Agreement relating to the "financial products" portfolio of FSA Asset Management LLC and the Guarantee Reimbursement Agreement, entered into by the Belgian and French States and Dexia. The main relevant terms of these agreements have been described in the 2011 Annual Report page 165.

Pursuant to these agreements, the Belgian and French States each agreed to guarantee, severally and not jointly, the obligations of Dexia SA pursuant to a put agreement which gave FSAM the right to "put" to Dexia and/or DCL certain assets (the Put Portfolio Assets) included in the FSAM portfolio as at 30 September 2008 upon the occurrence of certain trigger events up to an aggregate amount equal to USD 16.98 billion and up to 62.3711% for the Belgian State and 37.6289% for the French State.

With the consent of the Belgian and French States, FSAM sold to DCL during 2011 all the remaining Put Portfolio Assets. DCL subsequently sold substantially all of the Put Portfolio Assets to third parties. As at 31 December 2011, there were no longer any Put Portfolio Assets held by FSAM that can be put to Dexia SA and DCL and (if those Dexia entities did not pay the required amount to FSAM) require the States to make a payment to FSAM. Dexia also no longer owes the States any guarantee fee with respect thereto. The guarantee by the Belgian and French States on the Put Portfolio Assets, however, technically remains outstanding. The States are thus still entitled to recover from Dexia any amounts paid pursuant to their guarantee according to the Guarantee Reimbursement Agreement.

For a more detailed description of the guarantee for the Financial Products portfolio, see the Special Board Report of 12 May 2009, as last updated by the Special Board Report of 18 March 2011, both available on the website of Dexia (www.dexia.com).

4.5 Information on disposals groups held for sale and discontinued operations

a) Assets and liabilities included in disposal groups held for sale

In 2017, pursuant to IFRS 5, Dexia Israel was classified as a disposal group held for sale.

(in EUR million)	2017
Cash and cash equivalents	712
Financial assets available for sale	140
Customers loans and advances	1 098
Financial assets held to maturity	136
Current tax assets	12
Tangible fixed assets	6
Intercompany accounts: net position	(36)
Customer borrowings and deposits	(1 262)
Debt securities	(518)
Other liabilities	(76)
Provisions	(1)
Subordinated liabilities	(38)
NET ASSETS	**174**

4.6. Share-based payments

Dexia stock option plans (number of options)	2016	2017
Outstanding at the beginning of the period	6,445,628	4,689,026
Expired during the period	(1,756,602)	(2,365,824)
Outstanding at the end of the period	**4,689,026**	**2,323,202**
Exercisable at the end of the period	**4,689,026**	**2,323,202**

2016				2017			
Range of exercise prices (EUR)	**Number of outstanding options**	**Weighted-average exercise price (EUR)**	**Weighted-average remaining contractual life (years)**	**Range of exercise prices (EUR)**	**Number of outstanding options**	**Weighted-average exercise price (EUR)**	**Weighted-average remaining contractual life (years)**
10.74 - 12.35	2,323,202	12.16	1.49	10.74 - 12.35	2,323,202	12.16	0.50
19.21 - 21.02	2,365,824	21.02	0.50	19.21 - 21.02	0	21.02	0.00
TOTAL	**4,689,026**			**TOTAL**	**2,323,202**		

Since 2008 no option has been exercised. In fact they are out of the money.
Following the reverse stock split, the general conditions accompanying the issue of warrants were amended by notorised deed in order to place the beneficiaries of warrants in a situation substantially equivalent to that in which they would have been if the aforementioned operation had not occurred. The number of warrants necessary to subscribe to 1 (one) new share is henceforth one thousand (1,000). The exercice price per warrant remains unchanged.

4.7. Capital stock

	2016	2017
Number of shares authorised	279,213,332	279,213,332
Number of shares issued and fully paid	279,213,332	279,213,332
Number of shares issued and not fully paid	0	0
Par value of the share(1)	**1**	**1**
Outstanding as of January, 1st	223,657,776	279,213,332
Number of shares issued	55,555,556	
Outstanding as of December, 31	279,213,332	279,213,332
Rights, preferences and restrictions, including restrictions on the distribution of dividends and the repayment of capital	0	0
Number of treasury shares	0	0
Number of shares reserved for issue under stock options and contracts for the sale of shares(2)	NA	NA

(1) On 28 June 2016, the Extraordinary shareholders' meeting of Dexia Crédit Local decided to increase the share capital by an amount of EUR 250 million by issuing new shares with preferential subscription rights for the shareholders.
The share capital of Dexia Crédit Local has been increased from EUR 223,657,776 to EUR 279,213,332 through the issuance of 55,555,556 new shares with a nominal value of € 1 issued at the unit price of EUR 4.5, with a share premium of EUR 3.5 per share.
(2) Under the stock option plans of Dexia Crédit Local, these are Dexia shares that are granted to the employees.

See note 4.6 Share-based payments.

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4.8. Exchange rates

The primary exchange rates are presented in the following schedule.

		31/12/2016		31/12/2017	
		Closing rate(1)	Average rate(2)	Closing rate(1)	Average rate(2)
Australian dollar	AUD	1.4629	1.4854	1.5364	1.4812
Canadian dollar	CAD	1.4201	1.4584	1.5064	1.4754
Swiss Franc	CHF	1.0739	1.0901	1.1720	1.1166
Czech Koruna	CZK	27.0210	27.0388	25.5255	26.2852
Danish Krone	DKK	7.4348	7.4446	7.4456	7.4388
British Pound Sterling	GBP	0.8552	0.8231	0.8878	0.8760
Hong-Kong dollar	HKD	8.2011	8.5665	9.3774	8.8780
Hungarian forint	HUF	308.5850	311.5592	310.1400	309.2842
Shekel	ILS	4.0677	4.2261	4.1613	4.0640
Japenese Yen	JPY	123.4200	120.4517	135.0350	127.2879
Won	KRW	1,272.9950	1,280.1900	1,281.8400	1,276.8300
Mexican Peso	MXN	21.8382	20.6331	23.5333	21.4682
Norwegian Krone	NOK	9.0930	9.2558	9.8219	9.3778
New Zealand dollar	NZD	1.5179	1.5825	1.6881	1.5993
Swedish Krona	SEK	9.5573	9.4743	9.8271	9.6457
Singapore dollar	SGD	1.5270	1.5245	1.6035	1.5629
New Turkish Lira	TRY	3.7200	3.3406	4.5474	4.1484
US Dollar	USD	1.0576	1.1037	1.1998	1.1388

(1) Rate observed on Reuters at 4:45 pm on the last business day of the month of December.
(2) Average of the closing rates used by the Dexia group.

4.9. Management of capital

The information regarding management of capital is presented in the Management report pages xx to xx.

5. Notes on the statement of income

(some amounts may not add up due to roundings off)

5.1. Interest income - Interest expense (Items I and II - Statement of income)

(in EUR million)	2016	2017
Interest income	**10,127**	**9,933**
a) Interest income on assets not measured at fair value	**4,043**	**3,580**
Cash and central banks	22	54
Interbank loans and advances	142	160
Customer loans and advances	3,180	2,789
Financial assets available for sale	611	437
Financial assets held to maturity	52	106
Impaired assets	7	3
Other	29	30
b) Interest income on assets measured at fair value	**5,754**	**5,690**
Loans and securities held for trading	24	16
Derivatives held for trading	3,613	3,313
Hedging derivatives	2,118	2,361
c) Positive interests on financial liabilities	**330**	**662**
Positive interests on financial liabilities(2)	330	662
Interest expense	**(9,818)**	**(9,696)**
a) Interest expense on liabilities not measured at fair value	**(2,054)**	**(1,952)**
Interbank borrowings and deposits	(422)	(398)
Customer borrowings and deposits	(73)	(51)
Debt securities	(1,519)	(1,458)
Subordinated debt	4	(1)
Amounts covered by sovereign guarantees(1)	(35)	(38)
Other	(9)	(6)
b) Interest expense on liabilities measured at fair value	**(7,465)**	**(7,289)**
Liabilities designated at fair value	(73)	(63)
Derivatives held for trading	(3,653)	(3,488)
Hedging derivatives	(3,739)	(3,737)
c) Negative interests on financial assets	**(299)**	**(456)**
Negative interests on financial assets(2)	(299)	(456)
Net interest income	**309**	**236**

(1) This item includes fees paid to the States for the guarantees they granted to Dexia Crédit Local's debt. See also note 4.4.c Related-party transactions - Transactions with the Belgian, French and Luxembourg States.

(2) In the current environment of very low or negative rates, Dexia Crédit Local decided to present separately positive interests on financial liabilities and negative interests on financial assets.

5.2. Fees and Commissions (Items III and IV - Income statement)

	2016			2017		
(in EUR million)	Income	Expense	Net	Income	Expense	Net
Lending activity	8	(3)	5	8	(2)	6
Purchase and sale of securities	0	(2)	(2)	0	(3)	(2)
Payment services	1	(2)	(1)	1	(3)	(2)
Services on securities other than custodial services	0	(2)	(2)	0	(2)	(2)
Custodial services	5	(1)	4	3	(1)	2
Intermediation on *repo* and *reverse repo*	0	(4)	(4)	0	(5)	(5)
Other	3	(2)	1	2	(1)	1
TOTAL	**17**	**(17)**	**(1)**	**14**	**(18)**	**(3)**

Fees and commissions related to financial assets and financial liabilities which are not at fair value through profit or loss are below materiality.

5.3. Net gains (losses) on financial instruments at fair value through profit or loss (Item V - Income statement)

(in EUR million)	2016	2017
Net trading income	210	(115)
Net result of hedge accounting	209	(131)
Net result of financial instruments designated at fair value through profit or loss[1]	34	35
Change in own credit risk[2]	(36)	0
Funding costs associated with not collateralised derivatives (FVA)[3][4]	(57)	40
Change in fair value of derivatives attributable to counterparty risk (credit value adjustment)[3]	11	119
Change in fair value of derivatives attributable to own credit risk (debit value adjustment)[3]	(52)	(32)
Net result of foreign exchange transactions	(44)	0
TOTAL	**275**	**(84)**
(1) among which trading derivatives included in a fair value option strategy	(50)	(25)

(2) Dexia has decided an early application, as from 1 January 2017, as permitted by IFRS 9 "Financial Instruments", of the treatment relating to changes in the fair value attributable to own credit risk (OCR) of designated financial liabilities at fair value through profit or loss, which stipulates the recognition through equity and no longer through income of changes in fair value attributable to own credit risk, with no possibility of recycling through income.
(3) FVA, CVA et DVA are booked in the result of trading activities
(4) In accordance with the provisions of the IFRS 13 accounting standard and in line with market practice, the Dexia Crédit Local Group developed a methodology for the calculation, from June 2015, of a Funding Valuation Adjustment (FVA) aimed measuring the funding costs associated with non-collateralised derivatives.
All interests received and paid on assets, liabilities and derivatives are recorded in the net interest income.
Thus, net gains (losses) on trading transactions and net gains (losses) on hedging transactions only include the change in the clean value of derivatives, the revaluation of assets and liabilities qualified as hedges and the revaluation of the portfolio held for trading.

Analysis of net result of hedge accounting

(in EUR million)	2016	2017
Fair value hedges	**206**	**(77)**
Fair value changes of the hedged item attributable to the hedged risk	1,660	(2,322)
Fair value changes of the hedging derivatives	(1,454)	2,246
Cash flow hedges[1]	**2**	**(55)**
Fair value changes of the hedging derivatives – ineffective portion	2	0
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	0	(55)
Portfolio hedge	**1**	**1**
Fair value changes of the hedged item	175	(426)
Fair value changes of the hedging derivatives	(174)	427
TOTAL	**209**	**(131)**
Discontinuation of cash flow hedge accounting (cash flows still expected to occur) - amounts recorded in interest margin	2	(1)

(1) In 2017, the impact generated by the breaking of hedging relationships following the disposal of positions related to the Commonwealth of Puerto Rico (EUR -54 million).

The inefficiency is mainly due to the volatility of the variable component of hedging derivatives.

5.4. Net gains (losses) on financial assets available for sale (Item VI - Income statement)

(in EUR million)	2016	2017
Dividends on securities available for sale	13	2
Net gain (loss) on disposals of financial assets available for sale[(1)(3)]	16	20
Impairment of variable-income securities available for sale	(2)	(1)
Net gain (loss) on disposals of loans and advances[(4)]	52	(57)
Net gain (loss) on disposal of debt securities[(2)]	36	1
TOTAL	**116**	**(35)**

(1) Except for gains and losses on impaired fixed-income securities, which are included in cost of risk
(2) 2016: of which EUR +38 million due to redemption of Euro Medium Term Notes.
(3) As part of a disposal program, EUR 1.3 billion of securities were sold with a negative result of EUR - 39 million.
The disposal of these assets has implied the unwinding of the derivatives designated as portfolio hedges which generated a recognition of losses for EUR -91 million.
(4) As part of a disposal program, EUR 604 million of receivables from the French public sector were sold with a negative result of EUR - 25 million.
The disposal of these assets has implied the unwinding of the derivatives designated as portfolio hedges which generated a recognition of losses for EUR -67 million.
It also includes a loss of EUR -23 million on SPV Sumitomo loans which went out from the group's balance sheet due to the deconsolidation of the SPV.

5.5. Other income (Item VII - Income statement)

(in EUR million)	2016	2017
Rental income	3	0
Other banking income	1	0
Litigations[(1)]	34	48
Other income	13	7
TOTAL	**52**	**55**

(1) Structured loans are regularly analysed based on the progress of cases and on their environment (court decisions, parameters for establishment of support funds,...). This generates charges and reversals, which are disclosed in Note 5.5 Other income and respectively 5.6 Other expense.

5.6. Other expenses (Item VIII - Income statement)

(in EUR million)	2016	2017
Provisions for litigations[(1)]	(24)	(28)
Other expenses	(15)	(6)
TOTAL	**(40)**	**(34)**

(1) Structured loans are regularly analysed based on the progress of cases and on their environment (court decisions, parameters for establishment of support funds, ...). This generates charges and reversals, which are disclosed in Note 5.5 Other income and respectively 5.6 Other expense.

5.7. Operating expenses (Item X - Income statement)

(in EUR million)	2016	2017
Payroll costs	(156)	(161)
General and administrative expenses	(239)	(226)
TOTAL	**(395)**	**(387)**

a. Payroll costs

(in EUR million)	2016	2017
Compensation and salary expense	(104)	(103)
Social security and insurance expense	(37)	(37)
Employee benefits	(10)	(8)
Restructuring costs	(1)	(11)
Other	(4)	(3)
TOTAL	**(156)**	**(161)**

b. Employee information

(Average full time equivalent)	2016 Fully consolidated	2017 Fully consolidated
Executive staff	22	21
Administrative staff	1,041	893
Non-administrative and other personnel	14	13
TOTAL	**1,077**	**927**

2016							
(Average full time equivalent)	France	Italy	Spain	Other Europe	USA	Other non Europe	Total
Executive staff	3	2	1	4	8	4	22
Administrative staff	649	110	31	110	98	43	1,041
Non-administrative and other personnel	0	1	0	0	13	0	14
TOTAL	**652**	**113**	**32**	**114**	**119**	**47**	**1,077**

2017							
(Average full time equivalent)	France	Italy	Spain	Other Europe	USA	Other non Europe	Total
Executive staff	3	2	1	3	8	4	21
Administrative staff	550	98	18	94	92	41	893
Non-administrative and other personnel	0	1	0	0	12	0	13
TOTAL	**553**	**101**	**19**	**97**	**112**	**45**	**927**

c. General and administrative expenses

(in EUR million)	2016	2017
Cost of premises	(4)	(5)
Rent expense(1)	(12)	(17)
Fees	(52)	(47)
Marketing, advertising and public relations	(1)	(1)
IT expense	(28)	(36)
Software, research and development	(5)	(5)
Maintenance and repair	(2)	(1)
Restructuring costs	1	
Insurance (except related to pensions)	(5)	(4)
Stamp duty		
Other taxes(2)	(116)	(88)
Other general and administrative expenses	(13)	(21)
TOTAL	**(239)**	**(226)**

(1) This amount does not include IT equipment rental expenses, which are included in the "IT expense" line

(2) 2016: This item includes a charge of EUR -63 million representing 85% of the amount of payment to the annual contribution to the Single Resolution Fund (SRF) introduced by the European authorities within the framework of the Single Supervisory Mechanism, an amount of EUR -25 million representing an exceptional contribution for Italian Banks rescue, an amount of EUR -11.2 million representing the annual levy for systemic risk and an amount of EUR -2.6 million representing the Dexia contribution to the local authority and hospital sector support funds introduced in France.

2017: This item includes a charge of EUR -67.15 million representing 85% of the amount of payment to the annual contribution to the Single Resolution Fund (SRF) introduced by the European authorities within the framework of the Single Supervisory Mechanism, an amount of EUR -3 million representing the fees for the ECB supervision, an amount of EUR -7.7 million representing the annual levy for systemic risk and an amount of EUR -2.2 million representing the Dexia contribution to the local authority and hospital sector support funds introduced in France.

5.8. Depreciation, amortisation and impairment of tangible fixed assets and intangible assets (Item XI - Income Statement)

Depreciation and amortisation (in EUR million)	2016	2017
Depreciation of land and buildings, office furniture and other equipment		
Depreciation of other tangible fixed assets	(3)	(2)
Amortisation of intangible assets	(12)	(11)
TOTAL	**(15)**	**(14)**

5.9. Cost of risk (Item XIII - Income Statement)

(in EUR million)	2016			2017		
	Collective impairment	Specific impairment and losses	TOTAL	Collective impairment	Specific impairment and losses	TOTAL
Credit (loans, commitments and securities held to maturity)	8	59	67	72	(39)	33
Fixed-income securities available for sale		71	71			
TOTAL	**8**	**130**	**138**	**72**	**(39)**	**33**

Detail of collective and specific impairments

Collective impairment	2016			2017		
(in EUR million)	Additions	Recoveries	Total	Additions	Recoveries	Total
Loans and securities held to maturity	(96)	104	8	(64)	136	72
TOTAL	**(96)**	**104**	**8**	**(64)**	**136**	**72**

Specific impairment	2016			
(in EUR million)	Additions	Recoveries	Losses	Total
Customer loans and advances	(136)	275	(77)	62
Off-balance sheet commitments	(6)	3	0	(3)
TOTAL CREDIT	**(142)**	**278**	**(77)**	**59**
FIXED-INCOME SECURITIES AVAILABLE FOR SALE	**0**	**98**	**(26)**	**71**
TOTAL	**(142)**	**376**	**(104)**	**130**

Specific impairment	2017			
(in EUR million)	Additions	Recoveries	Losses	Total
Customer loans and advances	(89)	140	(92)	(41)
Off-balance sheet commitments	(1)	3	0	2
TOTAL CREDIT	**(90)**	**143**	**(92)**	**(39)**
FIXED-INCOME SECURITIES AVAILABLE FOR SALE	**0**	**0**	**0**	**0**
TOTAL	**(90)**	**143**	**(92)**	**(39)**

5.10. Net gains (losses) on other assets (Item XVI - Income statement)

(in EUR million)	2016	2017
Net gains (losses) on disposals of buildings	1	2
Gains/losses on the disposal of assets held for sale[(1)]	55	0
TOTAL	**56**	**2**

(1) 2016: Capital gain of EUR +50 million on the sale of CBX Tower in La Défense.

5.11. Income tax (Item XIX - Income statement)

Detail of tax expense	2016	2017
(in EUR million)		
Income tax on current year	(21)	(6)
Deferred taxes on current year	9	7
TAX ON CURRENT YEAR RESULT (A)	**(12)**	**0**
Income tax on previous year	1	(7)
Deferred taxes on previous year	0	(2)
Provision for tax litigations	(43)	0
OTHER TAX EXPENSE (B)	**(42)**	**(9)**
TOTAL (A) + (B)	**(54)**	**(8)**

Effective corporate income tax charge

The overall rate of the French corporate tax income (CIT) amounts to 34,43% (including 33 1/3 % of CIT plus 3,3% of additional contribution based on the CIT amount). The French budget law for 2018 provides for a gradual reduction of the corporate tax rate. However, for large companies, the rate will remain at 33 1/3 % in 2018 for profits above EUR 500,000 (28% for profits below this threshold). The rate will be 31% in 2019 for profits above EUR 500,000 (28% for profits below this threshold). Then this rate will fall, for all profits, to 28% in 2020, then to 26.5% in 2021, and finally to 25% from 2022. The additional contribution will remain due.

The deferred tax rate for Dexia Crédit Local Group companies under French law is now 25.825% (25% rate plus the additional contribution), knowing that no deferred tax asset was recognised.

To the extent that the reduced rate will only fully apply from 2020 onwards, the deferred tax rate for French companies within the group remains at 34.43%, keeping in mind that in any case no deferred tax assets are recognised.

The rate applied to foreign subsidiaries results is the one applicable locally according to the national legislation.

The average tax rate recorded in 2016 is 2.51% and 0.13% in 2017. The difference with the French rate can be explained as follows:

(in EUR million)	**2016**	**2017**
Net income before tax	**495**	**(231)**
Tax base	**495**	**(231)**
Statutory tax rate	34.43%	34.43%
Theoretical corporate income tax at the standard rate	**(170)**	**80**
Impact of differences between foreign tax rates and the standard French tax rate	(236)	25
Tax effect of non-deductible expenses	(307)	(114)
Tax effect of non-taxable income	173	133
Impact of items taxed at a reduced rate	26	5
Tax effect of change in tax rates or in regulation	0	(16)
Other additional taxes or tax savings[1]	(274)	57
Tax effect from reassessment of unrecognised deferred tax assets	776	(169)
Tax on current year	**(12)**	**()**
Effective tax rate	**2.51%**	**0.13%**

(1) In 2016, the amount includes EUR -198 million related to the deferral of tax deduction of capital losses on intra-group transfers of securities.

Tax consolidation

Dexia SA établissement stable in France is the head of the tax group, bringing together the following companies:

Dexia Crédit Local
GENEBUS Lease
Dexia Flobail
DEXIARAIL
DCL Evolution
Dexia CLF Régions Bail

Tax savings made by the tax group, as a result of losses, are recorded by Dexia Etablissement Stable (outside the scope of Dexia Crédit Local). However an addendum to the tax consolidation's agreement between DSA ES and DCL allows the latter under certain conditions to benefit from tax savings as a result of its own losses and up to the level of tax transfers performed by its subsidiaries to DSA ES.

5.12. Earnings per share

a. Basic earnings per share

Basic earnings per share are obtained by dividing "Net income, Group share" by the weighted average number of ordinary shares in issue during the year, less the average number of ordinary shares purchased by the company and held as treasury stock.

	2016	**2017**
Net income, Group share (in EUR million)	442	(241)
Weighted average number of ordinary shares (million)[1]	252	279
Basic earnings per share (in EUR)	1.75	(0.86)

(1) The Extraordinary shareholders' meeting of Dexia Crédit Local, as of 28 Juin 2016 acted a capital increase in cash by the issuance of 55.555.556 new shares maintaining the preferential susbscription rights of the shareholders.

b. Diluted earnings per share

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to reflect the conversion of all shares options granted to employees. For stock options, the calculation of the number of shares that could have been acquired at fair value (calculated as the average annual share price) is based on the monetary value of the subscription rights attached to the outstanding options.

The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the shares options.

The potential ordinary shares calculated as above are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share.

They are antidilutive and not taken into account when their conversion to ordinary shares would decrease loss per share.

No adjustment is made to net income attributable to equity holders of the parent.

	2016	2017
Net income, Group share (in EUR million)	442	(241)
Weighted average number of ordinary shares (million)[1]	252	279
Adjustment for stock options (million)		
Weighted average number of ordinary shares used for the calculation of diluted earnings per share (million)	252	279
Diluted earnings per share (in EUR)	1.75	(0.86)

(1) The Extraordinary shareholders' meeting of Dexia Crédit Local, as of 28 Juin 2016 acted a capital increase in cash by the issuance of 55.555.556 new shares maintaining the preferential susbscription rights of the shareholders.

6. Note on off-balance sheet items

6.1. Regular way trade

(in EUR million)	31/12/2016	31/12/2017
Assets to be delivered	13	0
Liabilities to be received	106	1,151

6.2. Guarantees

(in EUR million)	31/12/2016	31/12/2017
Guarantees given to credit institutions	462	397
Guarantees given to customers	1,638	936
Guarantees received from credit institutions	752	250
Guarantees received from customers	6,076	4,594
Guarantees received from the States	71,780	67,623

6.3. Loan commitments

(in EUR million)	31/12/2016	31/12/2017
Unused lines granted to credit institutions	10	10
Unused lines granted to customers	1,777	1,045
Unused lines granted by credit institutions[1]	5,718	4,453
Unused lines granted by customers	817	807

(1) Increase in 2016 mainly due to the lower utilisation of financing commitments received from Banque de France

6.4. Other commitments

(in EUR million)	31/12/2016	31/12/2017
Financial instruments given as collateral and other commitments given	79,054	65,977
Financial instruments received as collateral and other commitments received	13,197	13,067

7. Notes on risk exposure

(some amounts may not add up due to roundings off)

7.0. Risk exposure and hedging strategy

We also refer to chapter Risk Management of the Management Report.

7.1. Fair value

a. Fair value measurement and fair value hierarchy of financial instruments

We refer to note 1.1 Accounting policies and valuation methods, paragraph 1.1.7. Fair value of financial instruments.

b. Fair value

The following tables compare the fair value with the carrying amount of financial instruments not measured at fair value.

	31/12/2016		
(in EUR million)	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	4,222	4,222	0
Interbank loans and advances	7,109	7,113	4
Customer loans and advances	118,882	111,737	(7,145)
Financial assets held to maturity	1,918	1,885	(33)
Central banks	690	690	0
Interbank borrowings and deposits	40,850	40,849	(1)
Customer borrowings and deposits	10,778	10,816	38
Debt securities	98,524	98,907	383
Subordinated debt	482	479	(3)

	31/12/2017		
(in EUR million)	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	10,721	10,721	0
Interbank loans and advances	5,995	5,934	(61)
Customer loans and advances	98,914	91,672	(7,242)
Financial assets held to maturity	1,750	1,928	178
Interbank borrowings and deposits	31,760	31,753	(7)
Customer borrowings and deposits	6,426	6,455	29
Debt securities	89,654	90,234	580
Subordinated debt	160	161	1

c. Methods used to determine the fair value of financial instruments

The following tables provide an analysis of the fair value of financial assets and financial liabilities, based on the degree to which the fair value is observable (Level 1 to 3). The fair value measurement is recurring for financial instruments at fair value. The non-recurring fair value measurement is not significant for Dexia Crédit Local. Following the adoption of IFRS 13 Fair value measurement as from 1 January 2013, the method used to measure the fair value applies to all financial instruments.

Fair value of financial assets

	31/12/2016			
(in EUR million)	Level 1	Level 2	Level 3	Total
Cash and central banks	0	4,222	0	4,222
Financial assets at fair value through profit and loss	0	12,253	5,527	17,780
** Loans and securities held for trading*	*0*	*0*	*1,365*	*1,365*
** Derivatives held for trading*	*0*	*12,253*	*4,162*	*16,415*
Hedging derivatives	0	5,477	1,354	6,830
Financial assets available for sale	13,215	741	2,593	16,548
** Financial assets available for sale - bonds*	*13,133*	*727*	*2,479*	*16,338*
** Financial assets available for sale - equities*	*82*	*14*	*114*	*210*
Interbank loans and advances	0	2,227	4,886	7,113
Customer borrowings and deposits	50	620	111,067	111,737
Financial assets held to maturity	1,657	99	129	1,885
TOTAL	**14,921**	**25,638**	**125,556**	**166,116**

	31/12/2017			
(in EUR million)	Level 1	Level 2	Level 3	Total
Cash and central banks	0	10,721	0	10,721
Financial assets at fair value through profit and loss	0	9,030	4,158	13,188
** Loans and securities held for trading*	*0*	*0*	*679*	*679*
** Derivatives held for trading*	*0*	*9,030*	*3,479*	*12,509*
Hedging derivatives	0	4,170	814	4,985
Financial assets available for sale	8,271	23	2,537	10,830
** Financial assets available for sale - bonds*	*8,190*	*12*	*2,440*	*10,642*
** Financial assets available for sale - equities*	*80*	*10*	*97*	*188*
Interbank loans and advances	0	2,271	3,663	5,934
Customer borrowings and deposits	641	0	91,030	91,672
Financial assets held to maturity	1,563	0	365	1,928
Financial assets included in non current assets held for sale	253	711	1,127	2,092
TOTAL	**10,728**	**26,926**	**103,695**	**141,349**

Fair value of financial liabilities

	31/12/2016			
(in EUR million)	Level 1	Level 2	Level 3	Total
Central banks	0	690	0	690
Financial liabilities at fair value through profit and loss	0	13,827	4,848	18,675
** Financial liabilities designated at fair value*	*0*	*1,278*	*520*	*1,797*
** Derivatives held for trading*	*0*	*12,549*	*4,329*	*16,878*
Hedging derivatives	0	18,479	15,318	33,796
Interbank borrowings and deposits	0	22,224	18,626	40,849
Customer borrowings and deposits	0	8,074	2,742	10,816
Debt securities	0	69,453	29,454	98,907
Subordinated debt	0	0	479	479
TOTAL	**0**	**132,747**	**71,466**	**204,213**

	31/12/2017			
(in EUR million)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit and loss	0	10,277	3,915	14,192
** Financial liabilities designated at fair value*	*0*	*994*	*416*	*1,410*
** Derivatives held for trading*	*0*	*9,283*	*3,499*	*12,782*
Hedging derivatives	0	14,916	12,942	27,858
Interbank borrowings and deposits	0	18,126	13,627	31,753
Customer borrowings and deposits	0	1,118	5,337	6,455
Debt securities	0	68,764	21,470	90,234
Subordinated debt	0	0	161	161
Financial liabilities included in disposal groups held for sale	0	1,818	0	1,818
TOTAL	**0**	**115,017**	**57,452**	**172,469**

d. Transfer between level 1 and level 2

The tables hereunder present the amounts of financial instruments at fair value, for which fair value measurement is recurring, still in the books at the end of the period and for which the methodology of valuation has been changed between level 1 and level 2.

	31/12/2016		31/12/2017	
(in EUR million)	From 1 to 2	From 2 to 1	From 1 to 2	From 2 to 1(1)
Financial assets available for sale - bonds	550	62	0	136
TOTAL FINANCIAL ASSETS	**550**	**62**	**0**	**136**

(1) of which EUR 50 million for Dexia Israel, presented in Non current assets held for sale

The amounts of transfers between levels are the amounts of fair value of financial instruments at the closing date.

e. Level 3 reconciliation

	2016									
(in EUR million)	Opening balance	Total gains/ losses in P&L	Unrealised or deferred gains/ losses	Purchase	Sale	Settlement	Transfer into level 3	Transfer out of level 3	Other movements(1)	Closing
Loans and securities held for trading	1,375	144				(56)			(98)	1,365
Derivatives held for trading	3,698	590		64			2	(22)	(170)	4,162
Hedging derivatives	1,200	86	40			(4)	42	(7)	(3)	1,354
Financial assets available for sale - bonds	2,375	65	(16)	29	(1)	(424)	560	(155)	47	2,479
Financial assets available for sale - equities	138	(2)	1		(22)					115
TOTAL FINANCIAL ASSETS	**8,786**	**884**	**26**	**93**	**(24)**	**(484)**	**604**	**(184)**	**(225)**	**9,475**
Financial liabilities designated at fair value	495	24				(15)			16	520
Derivatives held for trading	4,469	57		100		(2)	14	(14)	(297)	4,329
Hedging derivatives	14,376	1,128	79	935			6	(398)	(809)	15,318
TOTAL FINANCIAL LIABILITIES	**19,341**	**1,210**	**79**	**1,035**	**0**	**(17)**	**21**	**(412)**	**(1,090)**	**20,166**

(1) Other movements include notably exchange differences for companies in euro and translation differences for companies in foreign currencies. On the assets side, they amount to EUR -265 million in result and to EUR 40 million recognised in Unrealised or deferred gains and losses through equity. On the liabilities side, they amount to EUR - 1 106 million recognised in result and to EUR 16 million recognised in Unrealised or deferred gains or losses through equity.

	2017										
(in EUR million)	Opening balance	Transfers in non current assets held for sale	Total gains/ losses in P&L	Unrealised or deferred gains/ losses	Purchase	Sale(1)	Settlement	Transfer into level 3(2)	Transfer out of level 3(2)	Other movements(3)	Closing
Loans and securities held for trading	1,365		24			(610)	(43)			(57)	679
Derivatives held for trading	4,162		(596)					11	(4)	(93)	3,479
Hedging derivatives	1,354		(479)	22			(8)	1	(43)	(33)	814
Financial assets available for sale - bonds	2,479	(48)	(65)	91		(185)	(298)	780	(149)	(165)	2,440
Financial assets available for sale - equities	115		(3)	(1)		(5)	(4)			(5)	97
Financial assets included in non current assets held for sale		48	13	3	1			3	(65)		4
TOTAL FINANCIAL ASSETS	**9,474**	**0**	**(1,106)**	**115**	**1**	**(799)**	**(352)**	**795**	**(261)**	**(354)**	**7,513**
Financial liabilities designated at fair value	520		(35)	34			(43)			(60)	416
Derivatives held for trading	4,329		(1,231)		597			3	(5)	(194)	3,499
Hedging derivatives	15,318		(1,489)		2			14	(284)	(618)	12,942
TOTAL FINANCIAL LIABILITIES	**20,166**		**(2,756)**	**34**	**599**	**0**	**(43)**	**17**	**(289)**	**(872)**	**16,856**

(1) Loans and securities held for trading: Dexia Crédit Local sold some of its Negative Basis Trade
(2) Transfers between levels result from the variation of the BVAL score (Bloomberg valuation)
(3) Other movements include notably exchange differences for companies in euro and translation differences for companies in foreign currencies. On the assets side, they amount to EUR -195 million in result and to EUR -159 million recognised in Unrealised or deferred gains and losses through equity. On the liabilities side, they amount to EUR -811 million recognised in result and to EUR -59 million recognised in Unrealised or deferred gains or losses through equity.

The amounts of transfers to level 3 or out of level 3 are the amounts of fair value of financial instruments at the closing date.

f. Sensitivity of level 3 valuations to alternative assumptions

Dexia Crédit Local's fair value applied to bonds and CDS classified in level 3 is partly based on unobservable parameters. The sensitivity analysis described below measures the impact on the fair value of alternative assumptions used for the unobservable parameters at closing date.

For the instrument within this category, the only unobservable parameters are the credit spreads (of bonds and CDS) for which Dexia Crédit Local uses the available credit spreads for the same counterparty or, if not available, the credit spreads for similar counterparties or belonging to similar sectors. Therefore, Dexia Crédit Local decided to elaborate alternative assumptions on the credit spreads. It should be noted that in 2017, Dexia Crédit Local has further developed the valuation techniques for Negative Basis Trade (NBT), products which each consist of a bond and a CDS, each of the elements is now valued independently, whereas they were valued as one single product in 2016.

Tests have been performed on all bonds and CDS classified in level 3. The main impacts are the following:

- For level 3 bonds in AFS, the sensitivity of the AFS reserve to alternative assumptions is estimated to vary between EUR -17 million (negative impact) and EUR +17 million (positive impact) for 2017, while in 2016, it was estimated to vary between EUR -21,5 million (negative impact) and EUR +21,5 million (positive impact).
- For level 3 bonds in the trading portfolio (Trading), the sensitivity of the variation in market value to alternative assumptions is estimated to vary between EUR -9 million (negative impact) and EUR +9 million (positive impact) for 2017. Bonds of this category are mostly components of NBT.
- The impact of the credit spreads alternative assumptions on Dexia Crédit Local's credit derivatives is estimated at EUR 15.5 million (positive scenario) versus EUR -15.8 million (negative scenario) before tax, while in 2016, it was estimated at EUR 14.1 million (positive scenario) versus EUR -14.7 million (negative scenario). It is to be noted that certain CDS are part of NBT.

In 2016, the bond and the CDS related to NBTs were tested together. The main assumption having an impact on their fair value was the unwinding impact. Based on the important number of unwinds performed by Dexia Crédit Local since 2009, and taking into account the stock of remaining NBT transactions in 2016, the positive impact (average unwinds cost of 2014) is EUR +5.2 million whereas the negative impact (average unwinds cost of 2011) gives an impact of EUR -19.8 million.

g. Difference between transaction prices and modelled values (deferred day one profit)

No DOP amounts were taken upfront as at 31 December 2017 nor as at 31 December 2016.

7.2. Credit risk exposure

Exposure at Default (EAD) is one of the parameters used to calculate capital requirements under the Regulation (EU) No 575/2013.

It corresponds to the best estimate of credit risk exposure at default and the definition varies depending on the approach adopted in calculating capital requirements. The Dexia Crédit Local Group uses both the standard and the advanced approach to calculate its risk-weighted assets.

- For financial assets measured at amortised cost, the EAD of a credit exposure on the balance sheet corresponds to the book value, gross of impairments, taking into account of accrued interest and the impact of hedge accounting;
- For financial assets measured at fair value, the EAD of a credit exposure on the balance sheet corresponds to the carrying amount before impairments;
- For derivatives, the EAD is calculated using the mark-to-market valuation method under Article 274 of the Regulation (EU) No 575/2013 and includes the replacement cost as well as the amount representing future potential exposure, obtained by the product of the notional amount and a coefficient depending on the type of derivative and its residual term;
- For off-balance-sheet commitments, the EAD represents the product of the (nominal) amounts of commitments and a Credit Conversion Factor (CCF). The Dexia Crédit Local Group applies the standard method (Article 111 of the Regulation (EU) No 575/2013) to determine credit conversion factors, except for project finance transactions (advanced approach).

In addition, as information relating to credit risk only concerns financial instruments generating credit risk exposure, the Dexia Crédit Local Group has decided to exclude from the scope of this report the other assets previously included, mainly accruals and other assets.

Credit risk exposure amounted to EUR 141 billion as at 31 December 2017.

a. Exposure by geographical region and by category of counterpart

Exposure by geographic region

(in EUR million)	31/12/2016	31/12/2017
France	25,413	28,198
Belgium	2,009	1,623
Germany	20,689	17,835
Greece	128	88
Ireland	103	10
Italy	25,512	22,993
Luxembourg	61	35
Spain	14,073	10,010
Portugal	3,868	3,891
Hungary	275	2
Austria	1,118	1,058
Central and Eastern Europe	1,843	954
Netherlands	155	71
Scandinavian countries	1,229	528
Great Britain	25,447	22,175
Switzerland	399	357
Turkey	367	169
United States and Canada	26,479	19,509
South and Central America	490	430
Southeast Asia	607	439
Japan	7,470	6,143
Israel	2,347	2,083
Other(1)	3,840	2,807
TOTAL	**163,923**	**141,406**

(1) Includes supranational entities

Exposure by category of counterparty

(in EUR million)	31/12/2016	31/12/2017	*of which Dexia Israel*
Central governments	25,461	29,704	979
Local public sector(1)	89,275	75,609	1,045
Financial institutions	19,798	13,135	9
Corporates	7,590	5,792	35
Monoline	2,040	1,481	
ABS/MBS	6,403	4,183	
Project finance	13,355	11,502	20
TOTAL	**163,923**	**141,406**	2,088

(1) as at 31 December 2017, this category includes: EUR 3 million on Greece, EUR 2 million on Hungary, EUR 9,739 million on Italy, EUR 1,698 million on Portugal and EUR 5,489 million on Spain and as at 31 December 2016, this category includes: EUR 50 million on Greece, EUR 2 million on Hungary, EUR 10,750 million on Italy, EUR 1,794 million on Portugal and EUR 6,785 million on Spain.

b. Maximum credit risk exposure (EAD) by class of financial instruments

	31/12/2016			31/12/2017			*dont Dexia Israël*		
(in EUR million)	Credit risk exposure before financial effect of the collateral	Financial effect of the collateral	Credit risk exposure	Credit risk exposure before financial effect of the collateral	Financial effect of the collateral	Credit risk exposure	*Credit risk exposure before financial effect of the collateral*	*Financial effect of the collateral*	*Credit risk exposure*
Financial assets available for sale (excluding variable income securities)	16,342	0	16,342	10,782	0	10,782	140		140
Financial assets held for trading (excluding variable income securities)	1,365	0	1,365	679	0	679			
Derivatives held for trading	7,856	1,939	5,917	6,281	2,003	4,278			
Hedging derivatives	2,072	1,382	690	1,693	1,007	686			
Financial assets held to maturity	1,917	0	1,917	1,886	0	1,886	136		136
Loans and advances (at amortised cost)	132,973	2,920	130,053	119,418	1,866	117,552	1,812		1,812
Loans commitments granted	1,249	0	1,249	723	0	723			
Guarantee commitments granted	40,648	34,258	6,390	36,032	31,212	4,820			0
TOTAL	**204,422**	**40,499**	**163,923**	**177,495**	**36,089**	**141,406**	**2,088**	**0**	**2,088**

Dexia Crédit Local holds financial collaterals composed of cash collaterals and term deposits, and to a lesser extend, of investment grade bonds (mainly AAA- AA sovereign or banking issuers).

Only financial collaterals eligible under Basel's regulation and directly held by Dexia Crédit Local are considered.

Credit risk exposure is presented gross of impairment. The amount of specific impairment by class of financial instruments is presented in the note 2.11 *Quality of financial assets*.

c. Credit quality of performing financial assets

The credit quality of financial assets is measured by reference to internal (Basel standard) or external ratings. Indeed, Dexia Crédit Local applies the AIRBA (Advanced Internal Ratings Based Approach) for the calculation of capital requirements for credit risk within the context of Pillar I of Basel, except for ABS positions for which credit risk is calculated within the Ratings based Approach, based on external ratings (Fitch, Standard & Poors or Moody's) and part of its portfolio for which credit risk exposure is calculated conforming the Basel Standard Method.

	31/12/2016				
(in EUR million)	AAA to AA^-	A^+ to BBB^-	Non investment grade	Unrated	Total
Financial assets available for sale (excluding variable income securities)	2,902	13,349	92	0	16,342
Financial assets held for trading (excluding variable income securities)	0	1,339	26	0	1,365
Derivatives held for trading	199	4,577	965	8	5,749
Hedging derivatives	14	656	20	0	690
Financial assets held to maturity	7	1,910	0	0	1,917
Loans and advances (at amortised cost)	54,781	59,472	13,852	398	128,504
Loans commitments granted	877	300	46	7	1,230
Guarantee commitments granted	183	6,056	139	5	6,383
TOTAL	**58,963**	**87,659**	**15,140**	**418**	**162,180**

(in EUR million)	31/12/2017 AAA to AA-	A+ to BBB-	Non investment grade	Unrated	Total
Financial assets available for sale (excluding variable income securities)	1,795	8,762	85	0	10,642
Financial assets held for trading (excluding variable income securities)	0	649	30	0	679
Derivatives held for trading	170	3,419	552	0	4,141
Hedging derivatives	8	647	31	0	686
Financial assets held to maturity	0	1,750	0	0	1,750
Loans and advances (at amortised cost)	47,944	54,772	10,836	550	114,102
Loans commitments granted	453	224	31	12	720
Guarantee commitments granted	214	4,485	94	4	4,796
Financial assets included in non current assets held for sale	6	1,912	157	14	2,088
TOTAL	**50,590**	**76,618**	**11,817**	**580**	**139,605**

d. Past-due and impaired financial assets

A financial asset is past due when the counterparty has failed to make a payment when contractually due. This is considered by contract. As an exemple, if a counterpart fails to pay the required interest at due date, the entire loan is considered as past due. Financial assets are classified as impaired in the cases described in note 1.1 "Accounting policies and valuation methods".

	31/12/2016			
	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets, before deducting any impairment loss
(in EUR million)	Less than 90 days	90 days to 180 days	Over 180 days	
Loans and advances (at amortised cost)	33	10	234	1,062
Other financial instruments			24	2
TOTAL	**33**	**10**	**258**	**1,064**

	31/12/2017			
	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets, before deducting any impairment loss
(in EUR million)	Less than 90 days	90 days to 180 days	Over 180 days	
Loans and advances (at amortised cost)	457		216	876
Other financial instruments	16		10	1
TOTAL	**473**	**0**	**225**	**877**

The evolution between 31 december 2016 and 31 december 2017 of past due amounts in the time bucket less than 90 days is mainly due to the fact that 31 december 2017 was a Sunday. The due amounts were paid in the very early days of January.

Forbearance

Regarding Dexia Crédit Local's activities, restructured loans include 3 different types of restructuring:
1. Restructuring related to commercial relationships with customers, which represented almost all restructuring until 2011;
2. Restructuring related to litigations, mainly on structured loans, with customers without any financial difficulties;
3. Restructuring related to financial difficulties of the counterparty both under normal relationships or under litigations.

In accordance wih the EBA's definition of Forbearance, only the 3rd case is considered as forborne loan in the context of this analysis. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments.

As at 31 december 2017, forborne assets amounted to EUR 1,078 million (of which EUR 3 million for Dexia Israel) (EUR 956 million as at 31 december 2016).

e. Collateral and other credit enhancements obtained by taking possession of collateral during the period

There are no assets of this type in 2017 nor in 2016.

f. Movements on impairment on financial assets

(in EUR million)	2016 As at 1 January	Additions	Reversals[1]	Utilisations	Other[2]	As at 31 December	Recoveries directly recognised in profit or loss	Charge-offs directly recognised in profit or loss
Specific impairment	**(606)**	**(138)**	**373**	**5**	**(2)**	**(368)**		**(104)**
Customer loans and advances	(456)	(136)	275		(2)	(319)		(77)
Available for sale securities	(148)	(2)	98	5		(47)		(26)
Fixed revenue instruments	*(97)*		*98*					*(26)*
Variable revenue instruments	*(51)*	*(2)*		*5*		*(47)*		
Accruals and other assets	(2)					(2)		
Collective impairment	**(417)**	**(96)**	**104**	**0**	**(4)**	**(413)**		
Interbank loans and advances	(24)	(35)	21			(38)		
Customer loans and advances	(393)	(61)	82		(4)	(376)		
TOTAL	**(1,023)**	**(234)**	**477**	**5**	**(6)**	**(781)**		**(104)**

(1) The provision set aside in 2015 for Hypo Alpe Adria Bank (HETA) was reversed in Customers loans and advances for an amout of EUR -99 million and in Available for sale securities for an amount of EUR -98 million. Losses have been recognised for respectively EUR 34 million and EUR 26 million.
(2) Other adjustments include notably the impact of changes in exchange rates.

(in EUR million)	2017 As at 1 January	Additions[1]	Reversals[1]	Utilisations	Other[2]	As at 31 December	Recoveries directly recognised in profit or loss	Charge-offs directly recognised in profit or loss[1]
Specific impairment	**(368)**	**(90)**	**140**	**3**	**15**	**(299)**		**(92)**
Customer loans and advances	(319)	(89)	140		12	(256)		(92)
Available for sale securities	(47)	(1)		3	3	(42)		
Fixed revenue instruments	*0*					*0*		
Variable revenue instruments	*(47)*	*(1)*		*3*	*3*	*(42)*		
Accruals and other assets	(2)					(1)		
Collective impairment	**(413)**	**(64)**	**136**		**14**	**(327)**		
Interbank loans and advances	(38)	(3)	22			(18)		
Customer loans and advances	(376)	(61)	114		14	(308)		
TOTAL	**(781)**	**(154)**	**276**	**3**	**29**	**(626)**		**(92)**

(1) Following the disposal of some of the exposures on Puerto Rico, reversals of specific impairment have been booked for CVEUR 40 millions and an amount of charge-offs has been recognised directly in profit or loss for CVEUR 60 millions; also, an additional provision of CVEUR 38 million was booked on the residual exposures on public entities related to the Commonwealth of Puerto Rico.
(2) Other adjustments include notably the impact of changes in exchange rates.

g. Credit risk information on loans and receivables designated at fair value through profit or loss

Dexia Crédit Local no longer holds loans and advances designated at fair value through profit or loss.

h. Credit risk information about financial liabilities designated at fair value through profit or loss

(in EUR million)	Carrying amount	Amount of change in the fair value attributable to changes in the credit risk		Difference between carrying amount and contractually amount required to be paid at maturity[1]
		Change of the period	Cumulative amount	
As at 31 December 2016	1 797	31	(173)	385
As at 31 December 2017	1 410	92	(81)	321

(1) This amount includes the premium/discount and change in market value.

See also note 3.1 Financial liabilities at fair value through profit or loss.

7.3. Collateral

Nature of the assets received as collateral if this collateral can be sold or repledged

(in EUR million)	31/12/2016 Fair value of collateral held	31/12/2016 Fair value of collateral sold or repledged	31/12/2017 Fair value of collateral held	31/12/2017 Fair value of collateral sold or repledged
Debt securities	2,913	1,583	2,922	1,160
TOTAL	**2,913**	**1,583**	**2,922**	**1,160**

Collateral is obtained in connection with the repurchase agreement activities.

Financial assets pledged as collateral for liabilities or contingent liabilities

(in EUR million)	31/12/2016	31/12/2016
Carrying amount of financial assets pledged as collateral for liabilities	97,436	84,112

The amount of EUR 97 billion in 2016 and EUR 84 billion in 2017 represents the amount of liquidity paid over as collateral for derivatives and assets pledged as collateral for funding received from the Eurosystem, the European Investment Bank, agreements for the temporary lending of stocks or other secured funding. This amount includes neither the assets guaranteeing the covered bonds issued by Dexia Kommunalbank Deutschland and Dexia LdG Banque SA, nor Dexia FP Holdings Inc.'s Guaranteed Investment Contracts (GICs). These assets are close to EUR 24 billion in 2017 (EUR 28 billion in 2016).

7.4. Interest-rate repricing risk: breakdown by remaining maturity until next refixing interest rate

Demand deposits are reported in the "Demand"column, as the information presented below takes into account the current maturity until the next date on which interest rates are reset from an accounting standpoint, rather than assumptions based on observed behavorial data.

a. Analysis of assets

	31/12/2016									
(in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Depreciation	Total
Cash and central banks	1,622	2,600	0	0	0	0	0			4,222
Financial assets at fair value through profit or loss	0	955	0	0	39	0	957	15,830		17,780
of which trading derivatives							*947*	*15,468*		*16,415*
Hedging derivatives							656	6,175		6,830
Financial assets available for sale	0	851	579	2,925	8,781	54	261	3,144	(47)	16,548
Interbank loans and advances	588	3,817	287	998	816	0	24	615	(37)	7,109
Customer loans and advances	102	22,263	23,510	9,558	41,446	104	889	21,707	(695)	118,882
Fair value revaluation of portfolio hedge								1,750		1,750
Financial assets held to maturity	0	29	48	99	1,702	0	40		0	1,918
Accruals and other assets	0	144	76	0	0	36,660	0	0	(2)	36,880
of which paid cash collateral						*36,632*	*0*			*36,632*
Subtotal financial assets used to calculate the gap	*2,313*	30,660	24,501	13,579	*52,783*	*36,817*				
Non-financial assets						106		0	0	106
TOTAL	**2,313**	**30,660**	**24,501**	**13,579**	**52,783**	**36,924**	**2,826**	**49,220**	**(781)**	**212,026**

b. Analysis of liabilities excluding shareholders' equity

(in EUR million)	31/12/2016 Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Central banks	35	625	30	0	0	0	0		690
Financial liabilities at fair value through profit and loss	0	1	0	141	1,258	0	912	16,363	18,675
Of which trading derivatives							*900*	*15,978*	*16,878*
Hedging derivatives							1,206	32,590	33,796
Interbank borrowings and deposits	120	37,500	1,613	783	763	0	54	18	40,850
Customer borrowings and deposits	549	4,829	3,698	1,276	362	0	24	41	10,778
Debt securities	16	23,948	22,386	29,313	17,601	0	671	4,589	98,524
Fair value revaluation of portfolio hedge								100	100
Subordinated debts	0	400	0	79	0	0	2	2	482
Accruals and other liabilities	8	326	47	33	42	3,977	0		4,434
Of which received cash collateral						*3,966*	*0*		*3,966*
Subtotal financial liabilities used to calculate the gap	*729*	*67,629*	*27,775*	*31,624*	*20,024*	*3,977*			
Non-financial liabilities						329			329
TOTAL	**729**	**67,629**	**27,775**	**31,624**	**20,024**	**4,306**	**2,869**	**53,702**	**208,658**

c. Balance-sheet sensitivity gap as at 31/12/2016

(in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity
	1 585	(36 969)	(3 274)	(18 045)	32 759	32 840

Balance-sheet sensitivity gap is hedged through derivatives.

a. Analysis of assets

(in EUR million)	As at 31/12/2017 Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and central banks	560	10,161	0	0	0	0	0			10,721
Financial assets at fair value through profit or loss		554	3	24	2	0	816	11,790		13,188
of which trading derivatives							*813*	*11,696*		*12,509*
Hedging derivatives							531	4,454		4,985
Financial assets available for sale	0	332	394	946	6,686	56	143	2,314	(42)	10,830
Interbank loans and advances	290	3,254	413	848	681	0	23	506	(18)	5,995
Customer loans and advances	6	18,985	21,375	6,702	33,056	0	785	18,570	(565)	98,914
Fair value revaluation of portfolio hedge								1,314		1,314
Financial assets held to maturity	0	17	27	30	1,639	0	37		0	1,750
Accruals and other assets	0	193	78	0	301	29,977	(1)	0	(1)	30,547
of which paid cash collateral						*29,989*	*(1)*			*29,989*
Non current assets held for sale	1,320	21	155	353	227	18	9	2	0	2,105
Subtotal financial assets used to calculate the gap	*2,177*	*33,516*	*22,445*	*8,903*	*42,591*	*30,034*				
Non-financial assets						85				85
TOTAL	**2,177**	**33,516**	**22,445**	**8,903**	**42,591**	**30,137**	**2,343**	**38,950**	**(626)**	**180,434**

b. Analysis of liabilities excluding shareholders' equity

(in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Total
	As at 31/12/2017								
Financial liabilities at fair value through profit and loss	0	95	0	75	906	0	717	12,400	14,192
Of which trading derivatives							*704*	*12,079*	*12,782*
Hedging derivatives							875	26,982	27,858
Interbank borrowings and deposits	280	29,086	1,156	653	517	0	52	15	31,760
Customer borrowings and deposits	314	4,786	770	175	346	0	13	22	6,426
Debt securities		18,692	15,545	34,451	16,817	0	619	3,531	89,654
Fair value revaluation of portfolio hedge								41	41
Subordinated debts	0	145	14	0	0	0	0	0	160
Accruals and other liabilities	1	301	54	13	36	3,525	0		3,931
Of which cash collateral received						*3,524*	0		*3,524*
Liabilities included in disposal groups held for sale	1,106	146	196	324	112	1	10	0	1,894
Subtotal financial liabilities used to calculate the gap	*1,700*	*53,251*	*17,735*	*35,691*	*18,734*	*3,525*			
Non-financial liabilities						246			246
TOTAL	**1,700**	**53,251**	**17,735**	**35,691**	**18,734**	**3,772**	**2,288**	**42,991**	**176,162**

c. Balance-sheet sensitivity gap as at 31/12/2017

(in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity
	476	(19,735)	4,709	(26,788)	23,857	26,509

Balance-sheet sensitivity gap is hedged through derivatives.

7.5 Sensitivity to interest rate risk and other market risks

We also refer to the chapter Risk Management of the Management Report.

a. Treasury and Financial Markets

The Dexia Crédit Local Group mainly assesses market risk using a combination of two measurement indicators, resulting in a limit-based risk management framework.

• The Value at Risk (VaR) is a measure of the expected potential loss with a 99% confidence interval and for a holding period of ten days. Dexia Crédit Local uses a number of VaR approaches to measure the market risk inherent in its portfolios and activities:

– Interest rate risk and basis risk are measured via a parametric VaR approach using a methodology based on the assumed normal distribution of yields relating to various risk factors.

– Credit spread risk (also known as specific interest rate risk) and other risks in the trading portfolio are measured using a historical VaR approach of which distribution is constructed by applying historical scenarios for the relevant risk factors associated with the current portfolio.

• Limits in terms of position, maturity, market and authorised products are put in place for each type of activity, ensuring consistency between overall value limits and operational thresholds used by front office.

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

Value at Risk of Market Activities

The table below shows the details of VaR used for market activities, excluding the bond portfolio. At the end of December 2017, total VaR consumption stood at EUR 3.3 million, compared with EUR 8.2 million at the end of 2016.

The Dexia Crédit Local trading portfolio is composed of two groups of activity:

• transactions initiated by financial instrument trading activities until the date on which the Group was placed in orderly resolution, mostly covered back-to-back;

• transactions intended to hedge risks arising from disinvestments and sales of assets within the framework of the orderly resolution plan.

The main risk factors of the trading portfolio are:

– interest rate risk, in particular in Euro and dollar zones.

– cross currency basis swap risk,

– basis risk BOR-OIS.

Value adjustments (credit value adjustment, debit value adjustment, funding value adjustment) and their variation are not integrated in the VaR model but integrated in the stress scenario.

Value at Risk of Market Activities

(in EUR million)	2016			
VaR (10 days, 99%)	**By risk factor**			**Overall**
	Interest rate and currency *(Banking et Trading)*	**Spread *(Trading)***	**Other risks**	**Continuing activities**
Average	6.0	2.8	0.2	9.0
Period end	4.0	4.1	0.2	8.2
Maximum	10.4	4.1	0.2	14.0
Minimum	2.4	2.3	0.2	5.1

Value at Risk of Market Activities

(in EUR million)	2017			
VaR (10 days, 99%)	**By risk factor**			**Overall**
	Interest rate *(Trading)*	**Spread *(Trading)***	**Other risks**	
Average	2.5	3.8	0.1	6.5
Period end	1.5	1.8	0.1	3.3
Maximum	3.0	4.2	0.1	7.3
Minimum	1.5	1.8	0.1	3.3

b. Balance Sheet Management (BSM)

Interest rate risk is measured via sensitivity. Risk sensitivity measures reflect balance sheet exposure to a 1% movement on the yield curve. The main indicator used to determine limits and to measure and monitor risk is the sensitivity of the net present value of accrued interest positions to interest rate fluctuations.

The overall and partial sensitivities by time bucket are the main risk indicators used by the ALM risk committees, organised within the Management Board, to manage risk. The Dexia Crédit Local Group's structural interest rate risk is mainly concentrated on European long-term interest rates, and arises from the imbalance between Dexia Crédit Local's assets and liabilities after hedging for interest rate risk.

SENSITIVITY AND LIMITS OF LONG TERM ALM

(in EUR million)	2016	2016
Sensitivity	+ 8.8	+ 13.9
Limit	+/- 80	+/- 80

The sensitivity of long term ALM amounted to EUR 13.9 million as at 31 December 2017 compared with EUR +8.8 million as at 31 December 2016. It complies with the ALM strategy, which seeks to minimise the volatility in the income statement.

c. Dexia bond portfolio exposure

(EUR billion)	2016	2017
Notional exposure	58	46

Interest-rate sensitivity

The interest-rate risk of the bond portfolio is hedged (its purpose is solely the management of the credit spread); therefore it has a very limited sensitivity to change of interest rate.

Credit spread sensitivity

A major part of AFS bond portfolios was reclassified as Loans and Receivables. The AFS reserve on these securitites is insensitive to credit spread variation.
As for other bond portfolios, the credit spread sensitivity measures the sensitivity in fair value reserve of bond portfolio classified as AFS to a basis point credit-spread increase, in millions of EUR. This sensitivity is closely monitored.

(EUR million)	2016	2017
Sensitivity	(13)	(10)

7.6. Liquidity risk

A. Analysis by term to maturity

A large part of the balance sheet consists of the revaluation of assets, liabilities and derivatives. As such revaluations vary constantly and cannot therefore be linked to the maturity of the financial instruments, they are presented under a separate column.
Demand deposits and saving deposits are included in the "Demand" column, even though they have no fixed repayment date.

a. Analysis of assets

	31/12/2016									
(in EUR million)	**Demand**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undeter-mined maturity**	**Accrued interest**	**Fair value adjust-ment**	**Impair-ment**	**Total**
Cash and central banks	1,622	2,600	0	0	0	0	0			4,222
Financial assets at fair value through profit or loss	0	6	32	42	915	0	957	15,830		17,780
of which trading derivatives							*947*	*15,468*		*16,415*
Hedging derivatives							656	6,175		6,830
Financial assets available for sale	0	278	514	2,908	9,436	54	261	3,144	(47)	16,548
Interbank loans and advances	588	438	825	3,233	1,423	0	24	615	(37)	7,109
Customer loans and advances	102	2,099	4,323	16,642	73,712	104	889	21,707	(695)	118,882
Fair value revaluation of portfolio hedge								1,750		1,750
Financial assets held to maturity	0	28	48	101	1,702	0	40		0	1,918
Accruals and other assets	0	144	76	0	0	36,660	0	0	(2)	36,880
of which paid cash collateral						*36,632*	*0*			*36,632*
Subtotal financial assets used to calculate the gap	*2,313*	*5,592*	*5,818*	*22,925*	*87,188*	*36,817*				
Non-financial assets						106		0	0	106
TOTAL	**2,313**	**5,592**	**5,818**	**22,925**	**87,188**	**36,924**	**2,826**	**49,220**	**(781)**	**212,026**

b. Analysis of liabilities excluding shareholders' equity

	31/12/2016								
(in EUR million)	**Demand**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undeter-mined maturity**	**Accrued interest**	**Fair value adjust-ment**	**Total**
Central banks	35	625	30	0	0	0	0	0	690
Financial liabilities at fair value through profit and loss	0	0	4	88	1,309	0	912	16,363	18,675
Of which trading derivatives							*900*	*15,978*	*16,878*
Hedging derivatives							1,206	32,590	33,796
Interbank borrowings and deposits	119	18,743	3,392	14,766	3,757	0	54	18	40,850
Customer borrowings and deposits	549	3,935	4,426	1,273	531	0	24	41	10,778
Debt securities	0	15,467	25,650	33,413	18,734	0	671	4,589	98,524
Fair value revaluation of portfolio hedge								100	100
Subordinated debts	0	0	252	163	64	0	2	2	482
Accruals and other liabilities	8	326	47	33	42	3,977	0		4,434
of which received cash collateral						*3,966*	*0*		*3,966*
Subtotal financial liabilities used to calculate the gap	*712*	*39,097*	*33,802*	*49,735*	*24,435*	*3,977*			
Non-financial liabilities						329			329
TOTAL	**712**	**39,097**	**33,802**	**49,735**	**24,435**	**4,306**	**2,869**	**53,702**	**208,658**

Net liquidity gap as at 31 December 2016 (in EUR million)	**Demand**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undetermined maturity**
	1,602	(33,504)	(27,984)	(26,810)	62,753	32,840

This table does not take into account the liquidity of the asset nor its eligibility for refinancing; some listed long-term assets may be sold or refinanced with central banks in case of need of liquidity.

a. Analysis of assets

(in EUR million)	31/12/2017 Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undeter-mined maturity	Accrued interest	Fair value adjust-ment	Depreci-ation	Total
Cash and central banks	560	10,161	0	0	0	0	0			10,721
Financial assets at fair value through profit or loss	0	5	5	39	534	0	816	11,790		13,188
of which trading derivatives							*813*	*11,696*		*12,509*
Hedging derivatives							531	4,454		4,985
Financial assets available for sale	0	319	301	946	6,791	56	143	2,314	(42)	10,830
Interbank loans and advances	390	223	941	2,696	1,236	0	23	506	(18)	5,995
Customer loans and advances	3	950	3,410	12,403	63,356	0	785	18,570	(565)	98,914
Fair value revaluation of portfolio hedge								1,314		1,314
Financial assets held to maturity	0	17	27	30	1,639	0	37		0	1,750
Accruals and other assets	0	193	78	0	301	29,977	(1)	0	(1)	30,547
of which paid cash collateral						*29,989*	*(1)*			*29,989*
Non current assets held for sale	1,320	21	155	353	227	18	9	2	0	2,105
Subtotal financial assets used to calculate the gap	*2,273*	*11,891*	*4,917*	*16,467*	*74,083*	*30,034*				
Non-financial assets						85				85
TOTAL	**2,273**	**11,891**	**4,917**	**16,467**	**74,083**	**30,118**	**2,343**	**38,950**	**(626)**	**180,434**

b. Analysis of liabilities excluding shareholders' equity

(in EUR million)	31/12/2017 Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undeter-mined maturity	Accrued interest	Fair value adjust-ment	Total
Financial liabilities at fair value through profit and loss	0	0	12	49	1,014	0	717	12,400	14,192
Of which trading derivatives							*704*	*12,079*	*12,782*
Hedging derivatives							875	26,982	27,858
Interbank borrowings and deposits	280	12,445	5,580	10,626	2,762	0	51	15	31,759
Customer borrowings and deposits	314	4,786	619	169	504	0	13	22	6,426
Debt securities	0	10,204	20,296	37,624	17,380	0	619	3,531	89,654
Fair value revaluation of portfolio hedge								41	41
Subordinated debts	0	0	34	106	19	0	0	0	160
Accruals and other liabilities	1	293	62	13	36	3,525	0		3,931
of which received cash collateral						*3,524*	*0*		*3,524*
Liabilities included in disposal groups held for sale	1,106	146	196	324	112	1	10	0	1,894
Subtotal financial liabilities used to calculate the gap	*1,700*	*27,875*	*26,798*	*48,911*	*21,828*	*3,525*			
Non-financial liabilities						246			246
TOTAL	**1,700**	**27,875**	**26,798**	**48,911**	**21,828**	**3,772**	**2,287**	**42,991**	**176,162**

Net liquidity gap as at 31 December 2017 (in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity
	573	(15,984)	(21,881)	(32,444)	52,255	26,509

This table does not take into account the liquidity of the asset nor its eligibility for refinancing; some listed long-term assets may be sold or refinanced with central banks in case of need of liquidity.

B. Steps taken to improve Dexia Crédit Local Group's liquidity

Steps taken to improve Dexia Crédit Local Group's liquidity are described in the Management Report, chapter "Information on capital and liquidity".

7.7. Currency risk

We also refer to Management Report, chapter Transformation risk, Measurement of foreign exchange risk.

Classification by original currency	31/12/2016						
(in EUR million)	EUR	GBP	Other EU currencies	U.S. dollars	JPY	Other currencies	Total
Total assets	133,566	26,072	109	38,798	7,997	5,484	212,026
Total liabilities and shareholders' equity	135,121	24,793	31	41,997	5,748	4,337	212,026
NET BALANCE SHEET POSITION	**(1,555)**	**1,279**	**78**	**(3,199)**	**2,249**	**1,147**	**0**

Classification by original currency	31/12/2017						
(in EUR million)	EUR	GBP	Other EU currencies	U.S. dollars	JPY	Other currencies	Total
Total assets	121,527	23,475	68	22,921	6,893	5,550	180,434
Total liabilities and shareholders' equity	122,756	22,402	41	25,695	5,036	4,505	180,434
NET BALANCE SHEET POSITION	**(1,229)**	**1,074**	**26**	**(2,774)**	**1,857**	**1,046**	**0**

8. Segment and geographic reporting

a. Segment reporting

Having completed its commercial entity disposal programme as required under the resolution plan, Dexia and Dexia Crédit Local are now focused on managing their residual assets in run-off, protecting the interests of the Group's State shareholders and guarantors.
In line with the group's profile and strategy, Dexia Crédit Local's performance is now shown at a consolidated level on the basis of a single division entitled «Management of activities in run-off», without specific allocation of funding and operating expenses by segment of activity.
This analytical presentation of performance is in line with Dexia Crédit Local's structure no longer consisting of homogenous operating units with their own decision-taking power in terms of resource allocation (funding and operating expenses). Consequently, operating charges must be considered globally and by geographic entity to ensure optimum management.

b. Geographic reporting

(in EUR million)	France	Germany	Spain	Ireland	Italy	United States	Israel	Others	Total
As at 31 december 2016									
NET BANKING INCOME	**272**	**54**	**37**	**227**	**68**	**17**	**31**	**5**	**711**
As at 31 december 2017									
NET BANKING INCOME	**(14)**	**60**	**33**	**79**	**36**	**(53)**	**20**	**(26)**	**135**

Statutory auditors' report on the consolidated financial statements

For the year ended December 31st, 2017

To the annual general meeting of Dexia Crédit Local,

Opinion

In compliance with the assignment entrusted to us by your annual general meeting, we conducted our audit of Dexia Crédit Local consolidated financial statements, for the year ended December 31st, 2017.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the results of its operations and of the financial position of the Group as at December 31st, 2017 for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The following audit opinion is consistent with our own executive Committee report.

Basis for opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1st, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in the French Code of ethics (Article 5, 1st paragraph, regulation (EU) n°537/2014) for statutory auditors.

Justification of Assessments – Key Audit Matter

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code relating to the justification of our assessments, we inform you of the following assessments that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

The ability to continue as a going concern used for the preparation of the financial statements
(We refer to the note 1.1.1.1 in the notes to the Consolidated Financial Statements)

Key Audit Matter	How our audit addressed the key audit matter
The group's ability to continue as a going concern is based on the revised orderly resolution plan of the Dexia Group, approved by the European Commission on December 28, 2012. This plan, revised by the Board of Directors of Dexia of November 14, 2017 is based amongst others on the following assumptions: - The business plan is based on observable market data at the end of 2012. - The underlying macro-economic assumptions are reviewed as part of the semi-annual reviews of the orderly resolution plan, which also include a review of the latest observable market data and a review of the latest accounting standards and regulatory developments. - The business plan assumes the preservation of the banking licenses of the different entities and of the credit rating of Dexia Credit Local. - The business plan assumes that the Dexia Crédit Local Group maintains a sound funding capacity, which relies in particular on the appetite of investors for the debt guaranteed by the Belgian, French and Luxembourg States as well as on the Group's capacity to raise secured borrowings. - Finally, the Group is also sensitive to the evolution of its macro-economic environment and to market parameters, including exchange rates, interest rates and credit spreads, of which fluctuations are likely to impact the business plan. As of today uncertainties, remain about the realization of the business plan supporting the ability to continue as a going concern. Consequently, we consider the ability to continue as a going concern as a key audit matter.	We have examined the latest evaluation made by the Executive Committee and the Board of Directors regarding the going concern principle of Dexia Crédit Local for a period of twelve months starting at the closing date of the exercise, as prescribed by IAS 1 – Presentation of Financial Statements, as well as the elements used to justify the evaluation and the underlying documentation: - We have examined the appropriateness of the overall underlying assumptions to the business plan, included in the latest available update at end of June 2017; based on our knowledge of the market, the activities of the Dexia Crédit Local and the applicable regulation and legislation. - We have assessed the elements on which the liquidity forecasts were estimated (including the realization of the existing assets and liabilities and the foreseen issuance of the different categories of borrowings in compliance with the funding policy of the Group) based on the underlying related documentation and on inquiries of management. - Finally, we have assessed the compliance with the legal and regulatory requirements of the available information on the going concern assumption presented in the notes to the Consolidated Financial Statements. We have inquired the Executive Committee and Board of Directors regarding the underlying assumptions to the business plan after the original period of 12 months. As mentioned in note 1.1, as of today, uncertainties exist besides the macro-economic factors, that are amongst other related to: - the conditions to access the Eurosystem financing facilities after 2021; - the renewal mechanism of the States' guarantee; - the future organization structure of the Dexia Crédit Local Group.

Operational risks linked to the information systems
(We refer to the note 1.4 in the notes to the Consolidated Financial Statements.)

Key Audit Matter	How our audit addressed the key audit matter
Dexia Crédit Local is dependent, for its operational activities, on the reliability and security of its information systems. The activity of the Group is also seen in the specific context of the management of the existing assets portfolios in rundown, in the context of the orderly resolution plan validated by the European Commission on 28 December 2012. With this background and to ensure operational continuity, Dexia Credit Local has outsourced its IT function (development, production and infrastructure) to an external service provider as of November 1st, 2017. In this context, the management of operational risk linked to the performance of the information systems, and to the automated treatment of accounting and finance data is assessed as a key audit matter.	The assessment of the general IT controls used throughout the data-flow chain is a key step in our audit approach. The audit work performed with the assistance of our IT-specialists consisted more specifically of: - understanding the structure of the IT landscape and the processes and controls related to the production of the accounting and financial information; - monitoring of the follow-up by Dexia Crédit Local of the impacts of IT incidents that occurred during the accounting period and the related corrective actions implemented; - assessing (i) the operating effectiveness of general IT controls (access management to the applications and data, management of the IT operations) and (ii) the key automated controls on significant information systems (credit and market applications, accounting, consolidation, automated reconciliation,…); - performing audit specific procedures on manual journal entries: • test the authorization process for processing manual journal entries; • review the supporting documentation justifying the nature and input of manual journal entries. Following the outsourcing of the IT-function, we have assessed the design of the controls implemented by the management in the context of the outsourcing to the external service provider. Finally, we have reviewed the information presented in the notes to the Consolidated Financial Statements related to the operational risks with relation to the information systems.

Identification and quantification of credit risk *(We refer to the notes 1.1.6.5, 1.1.22, 2.3, 2.4, 2.11, 3.7, 5.9 and 7.2 in the notes to the Consolidated Financial Statements.)*	
Key Audit Matter	**How our audit addressed the key audit matter**
Dexia Crédit Local is exposed to credit risk due to the inability of its clients to meet their financial obligations. Once there is an objective evidence of impairment, the risk is translated in the accounts by the recording of impairments on the related assets and by the recording of provisions on the related off-balance sheet commitments. Firstly, the Group determines specific impairments and provisions based on an estimation of the individual risk of non-recoverability and of the loss given default. In addition, for assets portfolios considered as sensitive, placed on watch list and on which no specific impairment is recognized, or for assets with an identified incurred sectorial risk, a collective impairment is estimated. The collective impairments are determined based on statistical models including professional judgment in the different stages of the calculation, especially for the definition of homogenous assets portfolios and for the determination of the risk parameters used in the impairment models. As at December 31, 2017, the gross outstanding amount of individually impaired financial assets amounts to 954 million euros, the specific and collective impairments amount to 626 million EUR and the cost of risk of the Group amounts to +33 million euros. We have considered the identification and quantification of the credit risk as a key audit matter considering the substantial amount of impairment and provisions in the Consolidated Financial Statements, the significant impact of the judgements applied by the management both for the determination of the carrying amounts of the outstanding assets and for the determination of the recorded impairments..	We have reviewed the adequacy of the control process related to credit risk and tested the operating effectiveness of the key controls implemented by the management. The key controls are related to the identification and monitoring of loans and advances to be impaired and of already impaired or restructured loans, to the compliance with the accounting principles defined by Dexia Crédit Local for the estimation of impairments, to the quality and the traceability of the data, to the calculations and to the data-flow from the management and risk systems to the accounting system. For the performance of our audit work on the impairments and provisions at closing date, we have taken into consideration the materially significant single outstanding exposure and/or the most materially significant assets portfolios subject to professional judgment by Dexia Crédit Local during the determination of the impairments. The tests include amongst others: - the identification of single files with objective evidence of credit risk (so called "sensitive" files): for a selection of files deemed as sound by the management, we have assessed the level of credit risk; - the estimation of the specific individual impairments: we have assessed, for a sample, the assumptions retained by the management in the estimation of the recorded impairments; - the estimation of the collective impairments: we have assessed the relevance of methodologies used, more specifically the aggregation of assets with similar exposures, the relevance of the data used, and their correct application in the calculation. We have also examined the information presented in the notes to the Consolidated Financial Statements on the credit risk.

Valuation of the financial instruments classified in level 2 and level 3 in the fair value hierarchy *(We refer to the notes 1.1.6.3, 1.1.7.1 to 1.1.7.2, 2.1, 2.2, 3.1, 4.1, 5.3, 5.4, 7.1 in the notes to the Consolidated Financial Statements)*	
Key Audit Matter	**How our audit addressed the key audit matter**
In conducting its market activities, Dexia Crédit Local holds financial instruments as assets and liabilities classified in level 2 and 3 in the fair value hierarchy. These instruments are recorded at fair market value estimated by valuation models, for which the parameters are either unobservable nor can be corroborated directly with publicly available market data. The fair value calculated may be subject to additional value adjustments to take into account certain market, liquidity and counterparty risks, including for the derivatives: - Credit Value Adjustment (CVA): takes into account the risk of default of the counterparty; - Debit Value Adjustment (DVA): takes into account the own credit risk of Dexia; - Funding Value Adjustment (FVA): takes into account the financing costs for the non-collateralized derivatives; - and the use of an actualization curve based on a daily rate curve (OIS). The methods used by Dexia Crédit Local to value these financial instruments, as well as the estimation of the fair value adjustments, include therefore a significant part of professional judgment regarding the defined methodologies, the choice of valuation parameters and the fair value adjustments, as well as the use of internal valuation models. These financial instruments classified in Level 2 and 3 in the fair value hierarchy in note 7.1 of the notes represent 130 621 million euros of the assets and 172 469 million euros of the liabilities of the consolidated balance of the Group as at 31 December 2017. Due to the substantial outstanding amounts and the use of professional judgment during the estimation of the fair value, we have assessed that the evaluation of the financial instruments classified in level 2 and 3 is a key audit matter.	We have assessed the adequacy of the key controls, defined and implemented by Dexia Crédit Local in the context of the valuation of financial instruments classified in level 2 and 3, and assessed the operational effectiveness, including those relating to: - the definition of the criteria's used for the classification of financial instruments in the fair value hierarchy as defined by IFRS 7; - the assessment of uncertainty risk linked to the use of valuation models: we have verified the existence of a cartography of the models and have assessed the documentation of the quantification of the uncertainty risk related to the use of these models, as well as the documentation of the priority criteria's applied in defining the periodicity of the review of the models; - the independent check of the valuation parameters: we have amongst others analyzed the relevance of the data sources used and we have assessed the hierarchy of these sources; - the estimation of fair value adjustments: we have assessed amongst others the relevance of the methodologies used, conducted an analytical review of the impacts and examined the reconciliation with the accounting data. We have relied on our valuation experts to perform, based on a sample basis: - an analysis of Dexia Crédit Local's own assessment of the uncertainty risk related to the use of valuation models; - an analysis of the relevance of the valuation parameters withheld; - the independent validation of valuation by using our own models. We have assessed the design of the tool used for the calculation and exchange of collaterals on financial derivatives and we have analyzed the main differences in valuations with the counterparties in order to comfort our assessment of the reliability of Dexia Crédit Local's valuation models. Finally, we have examined the information included in the notes to the Consolidated Financial Statements regarding the fair value hierarchy.

Documentation and effectiveness of the hedging relationships *(We refer to the notes 1.1.10, 1.1.11, 4.1, 5.3 in the notes to the Consolidated Financial Statements)*	
Key Audit Matter	**How our audit addressed the key audit matter**
In conducting its financing activities, Dexia Crédit Local has decided to cover the risk of change in fair value or change in cash-flows of its assets and liabilities by using hedging derivatives. The designation of a hedging relationship is defined by IAS 39 - Financial Instruments: Recognition and Measurement, in particular the following conditions must be met: - the documentation of the characteristics of the hedged item, of the hedging instrument, and of the type of hedging relationship designated; - the justification of the use of hedge accounting by the performance of efficiency quantitative testing supporting the hedging relationship. The outstanding hedging derivatives represent significant amounts (respectively 4 985 million euros and 27 858 million euros on the assets and liabilities at the end of the financial year and a net hedge accounting result of 131 million euros), therefore we consider the documentation and effectiveness of the hedging relationships as a key audit matter.	We have assessed the design of the internal control system and the governance related to the documentation and the effectiveness testing of the hedging relationships. In our audit work we have focused on: - the documentation of the hedging relationships; - the identification of the hedged portfolios and hedging instruments; - the process to perform the effectiveness tests supporting the hedging relationships designated over time; - the principles of derecognition of hedging relationships. Our work on the outstanding relationships at closing date focused on the following: - the reconciliation of the outstanding amounts per management accounting with the outstanding amounts per financial accounting; - the review of the effectiveness tests and the recording of the related inefficiency; - the analytical review of the variation of ineffectiveness over the year. We have involved our hedge accounting specialists to, based on a sample: - assess if the methodologies and the documentation of hedging relationships are compliant with IAS 39; - review the documentation related to the dealing of derivatives with the market when back-to-back hedging relationships are entered between Group entities. In addition, we have assessed if the methodology applied by Dexia Crédit Local complies with the IFRS standards on the accounting treatment of hedging relationships when a sale of a hedged instrument occurs. We have also assessed the accounting impacts related to the termination of hedging relationships or allocation of hedging instruments to new relationships. Finally, we have examined the information included in the notes of the Consolidated Financial Statements relating to the risks arising from the hedging relationships on behalf of Group's entities.

Verification of the Management Report and of the Other Documents Provided to shareholders

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the consolidated financial statements of the information given in the management report.

Report on Other Legal and Regulatory Requirements

Statutory auditors' appointment/ designation

The 16th of May 2008 Dexia Credit Local general annual meeting has appointed Deloitte & Associés as Statutory auditor.

The 28th of June 1996 Dexia Crédit Local general annual meeting has appointed Mazars as Statutory auditor.

As at December 31, 2017, Deloitte & Associés achieved its 10th year of auditing Dexia Crédit Local's financial statements. Mazars achieved its 22nd year.

Responsibilities of Management and Those Charged with Governance for the consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with French accounting principles, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Executive Committee is in charge of the financial reporting process and monitoring the effectiveness of the internal control and risk management systems and, where applicable, the internal audit with respect to concerns procedures relating to the preparation and processing of accounting and financial information.

The Board of Directors approved the consolidated financial statements.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objectives and Audit Approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code, our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of your Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
- External auditor collect financial information of entities included in the scope of consolidation, data estimated to be sufficient and appropriate to express an opinion on the consolidated financial statements. External auditor is responsible for the management, supervision and execution of the consolidated financial statements audit as well as the expressed audit opinion.

Report to the Audit Committee

We submit a report that outlines the scope of the audit work as well as the work program implemented, and conclusions arising from the work performed. We also disclose, when appropriate, the significant weaknesses of internal control that we have identified with respect to the procedures relating to the preparation and processing of accounting and financial information.

We describe risks of material misstatement that we consider the most significant to the financial statements audit for the year ended December 31, 2017 and which therefore represent key audit matter in the executive committee report

We also provide to the executive Committee the declaration provided by Article 6 of Regulation (EU) No 537-2014 confirming our independence, according to the French standards as determined by Articles L. 822-10 to L. 822-14 of the French Commercial Code. When appropriate, we discuss with the audit committee risks related to our independence.

Neuilly-sur-Seine and Courbevoie, March 29, 2018

French original signed by the statutory auditors

DELOITTE & ASSOCIÉS

Pascal COLIN

Jean-Vincent COUSTEL

MAZARS

Claire GUEYDAN

Financial statements

Balance sheet

Assets

(in EUR million)	Note	As at 31/12/2016	As at 31/12/2017
I. Cash, central banks and postal checking accounts	*2.1*	767	404
II. Government securities	*2.2*	3,214	2,737
III. Interbank loans and advances	*2.3*	22,243	28,958
IV. Customer loans and advances	*2.4*	35,185	29,987
V. Bonds and other fixed-income securities	*2.5*	36,875	26,676
VI. Equities and other variable-income securities	*2.6*	152	140
VII. Long-term equity investments	*2.7*	588	266
VIII. Intangible assets	*2.8*	28	30
IX. Tangible fixed assets	*2.9*	3	2
X. Unpaid capital		0	0
XI. Uncalled capital		0	0
XII. Treasury stock		0	0
XIII. Other assets	*2.10*	28,006	22,676
XIV. Accruals	*2.10*	8,069	7,061
TOTAL ASSETS		**135,130**	**118,937**

Liabilities and equity

(in EUR million)	Note	As at 31/12/2016	As at 31/12/2017
I. Interbank borrowings and deposits	*3.1*	40,308	30,998
II. Customer deposits	*3.2*	163	8
III. Debt securities	*3.3*	75,900	70,853
IV. Other liabilities	*3.4*	4,618	4,637
V. Accruals	*3.4*	10,116	8,417
VI. Provisions for risks and charges	*3.5*	2,055	1,184
VII. General banking risks reserve		0	0
VIII. Subordinated debt	*3.6*	435	182
EQUITY	*3.7*	**1,535**	**2,658**
IX. Capital stock		279	279
X. Additional paid-in capital		2,588	2,588
XI. Reserves and retained earnings		(1,115)	(1,213)
XVII. Net income (loss) for the year		(217)	1,004
TOTAL LIABILITIES AND EQUITY		**135,130**	**118,937**

Off-balance sheet items

(in EUR million)	Note	As at 31/12/2016	As at 31/12/2017
COMMITMENTS GIVEN			
I. Financing commitments given	*4.1*	3,290	7,818
II. Guarantee commitments given	*4.2*	33,676	4,072
III. Other commitments given	*4.3*	38,534	31,141
COMMITMENTS RECEIVED			
IV. Financing commitments received	*4.4*	5,718	5,001
V. Guarantee commitments received	*4.4*	18,485	16,085
VI. Commitments related to securities	*4.5*	0	0
VII. Commitments related to foreign currency transactions	*4.6*	59,480	56,792
VIII. Commitments related to forward and derivative financial instruments	*4.7*	295,395	274,778

Income statement

(in EUR million)		Note	As at 31/12/2016	As at 31/12/2017
I.	Interest income	*5.1*	4,764	3,100
II.	Interest expense	*5.1*	(4,521)	(2,696)
III.	Income from variable-income securities	*5.2*	13	54
IV.	Fee and commission income	*5.3*	2	1
V.	Fee and commission expenses	*5.3*	(12)	(13)
VI. A	Net gains (losses) on held-for-trading portfolio transactions	*5.4*	(23)	(6)
VI. B	Net gains (losses) on available-for-sale portfolio transactions	*5.4*	365	933
VI. C	Net gains (losses) on held-to-maturity portfolio transactions	*5.4*	84	62
VII.	Other banking income	*5.8*	19	2
VIII.	Other banking expenses	*5.8*	(31)	(10)
NET BANKING INCOME (LOSS / PROFIT)			**661**	**1,427**
IX.	General operating expenses	*5.5*	(287)	(311)
X.	Depreciation and amortisation		(8)	(10)
GROSS OPERATING INCOME (LOSS / PROFIT)			**366**	**1,106**
XI.	Cost of risk	*5.6*	(10)	67
OPERATING INCOME (LOSS / PROFIT) AFTER COST OF RISK			**356**	**1,173**
XII.	Net gains (losses) on non-current assets	*5.7*	(550)	(162)
INCOME (LOSS / PROFIT) BEFORE TAX			**(194)**	**1,011**
XIII.	Non-recurring items	*5.9*	0	0
XIV.	Corporate income tax	*5.10*	(23)	(7)
XV.	Net change in general banking risks reserve		0	0
NET INCOME (LOSS / PROFIT)			**(217)**	**1,004**
BASIC EARNINGS PER SHARE (EUR)			(0.78)	3.6
FULLY DILUTED EARNINGS PER SHARE (EUR)			(0.78)	3.6

Notes to the financial statements

Accounting policies and valuation methods

1.1. Significant events in 2017

The significant events of the financial year are as follows

On 1 April 2017, the subsidiary Dexia CLF Bank, held 100% by Dexia Crédit Local, was the object of a universal transfer of assets. The merger surplus of EUR 13 million was booked as a gain on fixed assets.

On 30 April 2017, the subsidiary CBX.IA 2, held 100% by Dexia Crédit Local, was the object of a universal transfer of assets. The merger surplus of EUR 56 million was booked as a gain on fixed assets.

These mergers fell within the framework of the orderly resolution plan aimed at a legal and operational simplification of the Dexia Group.

Against the background of a significant return to liquidity on the Spanish and British covered bond portfolios, Dexia Crédit Local identified a part of its portfolio of held-to-maturity securities as capable of being disposed of. As a consequence, the held-to-maturity securities concerned were reclassified on 1 October 2017 in the portfolio of held-for-trading securities for a net book value of EUR 2.8 billion. That portfolio was the object of disposals for a nominal amount of EUR 1.4 billion in 2017, generating a gain of EUR 86 million.

Dexia Crédit Local recorded a provision for depreciation of its holding in its subsidiary Dexia Kommunalbank Deutschland AG in an amount of EUR 233 million.

The valuation of that holding as at 31 December 2017, entered in the Dexia Crédit Local balance sheet at a gross value of EUR 793 million, was realised on the basis of utility value. The net value of the holding thus passed to EUR 0 as at 31 December 2017.

On 4 October 2017, Dexia signed a 10-year agreement with Cognizant, making Cognizant a strategic partner of Dexia for IT and the management of operational processes on back office markets and loans activities in France and Belgium.

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

In all, approximately 150 Dexia staff members will join the new entity, Cognizant Horizon.

As the transfer of IT services took place on 1 November, the reduction of staff costs and the increase of consultancy costs are insignificant for the year 2017, but will be more marked in 2018 since this will be for a whole year for IT and half a year for back offices.

Post-balance sheet events

On 8 February 2018, the Board of Directors of Dexia Crédit Local ratified implementation of the transfer at book value of a portfolio of 108 bonds at a nominal EUR 3.6 billion and 104 swap transactions from Dexia Kommunalbank Deutschland AG to Dexia Crédit Local Dublin.

The portfolio consists mainly of Italian sovereign securities (67%) as well as Portuguese (15%), Italian (8%), Japanese (6%) and American (4%) public sector securities.

The purchase of this portfolio was aimed at improving the financial and economic situation of Dexia Kommunalbank Deutschland, reducing the concentration of its credit risks and improving its capacity to bear those risks.

The transfer began on 9 February 2018 and should continue until the end of the first quarter 2018.

This project also falls within the industrial logic of the Dexia Crédit Local Group to centralise the management of exposures in dedicated centres of expertise.

On 17 March 2018, Dexia Crédit Local concluded an agreement with qualified investors concerning an off-market transaction relating to the disposal of all of its shares in Dexia Israel. The sale was agreed at a price of NIS 674 per share and for a total amount of approximately EUR 82 million. The book value amounts to EUR 56 million. The impact of the sale will be booked in the first quarter 2018.

With this sale, Dexia has completed its programme for the obligatory disposal of its main commercial franchises, one of the commitments 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 constitutes the passing of a major milestone in execution of Dexia's orderly resolution plan.

1.2. Accounting policies and valuation methods used to present the financial statements

The statutory and consolidated financial statements of Dexia Crédit Local 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.

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• 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 Crédit Local 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, Dexia Crédit Local'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 Dexia Crédit Local, 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[1]. Considering the substantial reduction of Dexia Crédit Local'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, Dexia Crédit Local 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 and Dexia Crédit Local since their entry in resolution do not allow them to ensure constant compliance with certain regulatory ratios over the resolution period.
Dexia and Dexia Crédit Local are also sensitive to the evolution of their 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 Dexia and Dexia Crédit Local's liquidity and solvency position, by increasing the amount of cash collateral paid by Dexia and Dexia Crédit Local to their derivatives counterparties[2] 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 regulatory capital.
• Finally, if market demand for government-guaranteed debt were to decline, Dexia Crédit Local may need to turn to more costly funding sources which would directly impact the profitability assumed in the original business plan.
The financial statements have been prepared in accordance with the principles and standards contained in European Council Directives governing the financial statements of banking institutions, in compliance with Regulation n° 2014-07, regarding the preparation of individual financial statements.

a. Changes in accounting policies and valuation methods applied to the financial statements

No changes have been made to the accounting policies and valuation methods applied to the financial statements.

b. Measurement of items in the balance sheet, off-balance sheet and income statement in the summary financial statements

The summary financial statements have been prepared in accordance with the rules of prudence, and fundamental accounting principles:
• going concern assumption;
• matching principle;
• consistency criterion.

Customer loans

Any loans approved but not yet disbursed are shown as off-balance sheet items.
Current and accrued interest on customer loans is recognised in banking income on an accrual basis, as is the interest on overdue payments. Interest on non-performing loans reported in net banking income is neutralised by the recognition of an equivalent amount of impairment.
Related fees and commissions received and incremental transaction costs on extending or acquiring credits, if significant, are spread over the effective life of the loan. Other fees received are recorded directly to income.
For both accounting and tax purposes, all early repayment penalties on loans recognised up to 31 December 2004 will continue to be amortised over the remaining life of the related loans in proportion to the outstanding interest that would have had to be paid. The balance of outstanding penalties to be amortised is classified under deferred income.
Since 1 January 2005, all early repayment penalties on loans have been taken into income at the repayment date.
Customer loans are stated in the balance sheet net of provisions for possible losses. They are broken out into four separate categories: performing loans, restructured performing loans, non-performing loans under collection and doubtful non-performing loans.
Non-performing loans are considered to be doubtful as soon as it becomes apparent that they will probably or certainly not be repaid. Non-performing loans are defined as any loans that are more than three months overdue in accordance with the prudential definition of default published by the European Banking Authority and regulation published by the ECB as single supervisor. Loans to borrowers that have been subject to formal alert procedures or filed for bankruptcy are classified as loans under collection, this category being analysed in the notes to the financial statements in the same way as non-performing loans.

(1) 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.
(2) 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.

Impairment on non-performing loans is computed on the basis of the estimated loss exposure. Interest is written down in full.

Non-performing loans are considered to be doubtful as soon as their repayment becomes highly uncertain and it becomes apparent that they will eventually be written off.

Non-performing loans are downgraded from "under collection" to "doubtful" either one year at the latest after becoming non-performing, or immediately if the loan had previously been classified as a restructured performing loan. The interest on these loans is no longer included in interest income once they have been classified as doubtful non-performing.

Loans that have been restructured under non-market conditions are included in the second category until their final maturity. They are written down for impairment in an amount equal to the present value of the future interest payments gap. This write-down is taken immediately into expense under the cost of risk, and is reversed into income on an accrual basis over the remaining term of the loan.

Securities transactions

The securities held by Dexia Crédit Local are recorded on the balance sheet under the following asset headings:

- government securities eligible for Central Bank refinancing;
- bonds and other fixed-income securities;
- equities and other variable-income securities.

In accordance with Regulation n° 2014-07, they are broken out in the notes to the financial statements into "Held-for-trading securities", "Available-for-sale securities" and "Held-to-maturity securities".

Held-for-trading securities

Held-for-trading securities are securities traded on a liquid market that are purchased or sold with the intention of being sold or repurchased within a short period of time. The Dexia Crédit Local held-for-trading portfolio consists primarily of adjustable-rate bonds. Held-for-trading securities are taken to the balance sheet at cost, including accrued interest and excluding acquisition costs. At each period end, they are marked to market and the resulting unrealised gain or loss is taken to the income statement.

Available-for-sale securities

These consist of securities that are not recognised as held-for-trading securities, held-to-maturity securities, portfolio securities, other long-term investments, investments in associates or investments in related parties.

The portfolio consists primarily of fixed and adjustable-rate bonds, but also includes some variable-income securities. Fixed-rate bonds are generally hedged against interest rate risks by means of interest rate and/or currency swaps classified as hedges. The use of this technique has the effect of creating synthetic adjustable or variable-rate assets that are immunised against interest rate risks.

Available-for-sale securities are taken to the balance sheet at cost, excluding acquisition costs and accrued interest, which are recorded separately. Any premiums or discounts, corresponding to the difference between the acquisition cost and redemption price, are recorded on the balance sheet and amortised to the income statement on a quasi-yield-to-maturity basis over the remaining life of the securities. This method is applied to all securities in the portfolio.

At the reporting date, in application of the prudence principle, available-for-sale securities are recorded on the balance sheet at the lower of their acquisition cost and their selling price at the reporting date, after taking into account gains on micro hedging transactions for purposes of calculating the reduction in their value.

If no active market is available for a given financial instrument, valuation techniques are used to calculate the realisable value (or the market value, as defined elsewhere in the notes) of the instrument. The valuation model should take into account all the factors that market participants would consider when pricing the asset. In such cases, Dexia Crédit Local uses its own valuation models, taking account of market conditions at the date of the valuation as well as of any changes in the credit risk quality of these financial instruments and market liquidity.

If the potential decrease in the value of the securities exceeds the related unrealised hedging gain, a provision corresponding to the difference is deducted from the securities' carrying amount. A reserve is booked on the liabilities side of the balance sheet for any unrealised hedging losses that are not offset by an increase in the market value of the hedged securities.

Gains and losses on disposals of marketable available-for-sale securities are calculated on a FIFO basis.

Any available-for-sale securities transferred to the held-to-maturity portfolio are transferred at cost.

Any provisions for impairment that are no longer required at the date of transfer are released to the income statement over the remaining life of the securities.

Held-to-maturity securities

Held-to-maturity securities consist of fixed-income securities with fixed maturities that have been acquired or transferred from "available-for-sale securities" and "held-for-trading securities" with the explicit intention of being held to maturity.

They are either financed with back-to-back resources or hedged in order to neutralise the effect of interest rate fluctuations on earnings. The hedging instruments used consist solely of interest rate and/or currency swaps.

The use of these specific, allocated hedges has the effect of creating synthetic adjustable- or variable-rate assets that are immunised against interest rate risks.

Held-to-maturity securities are stated at cost, excluding acquisition costs and accrued interest at the date of acquisition, which are recorded separately. Premiums and discounts, representing the difference between the cost of the securities, excluding accrued interest, and the redemption price, are amortised on a yield-to-maturity basis over the remaining life of the securities.

Unrealised gains are not recognised and no provisions are booked for unrealised losses at the balance sheet date except in cases where:

- the ability of the issuer to honour its repayment obligations appears uncertain; or
- it is probable that the securities will not be held to maturity due to a change in circumstances.

Should held-to-maturity securities be sold or transferred to another portfolio category for an amount that is material relative to the total value of all held-to-maturity securities, Dexia Crédit Local would no longer be authorised to classify any securities previously or subsequently acquired as held-to-maturity until the third following full fiscal year, unless said sale or transfer does not call into question the bank's intention of maintaining its other held-to-maturity securities until their actual maturity (e.g. sale of one particular held-to-maturity security whose issuer's credit quality has deteriorated significantly, or in the case of held-for-trading or available-for-sale securities that were previously transferred into held-to-maturity under extraordinary market conditions that required a change of strategy and which may once more be traded on an active market). All previously acquired held-to-maturity securities are reclassified as "available-for-sale securities" at their carrying amount at the same time that the other securities are reclassified.

Portfolio securities

This category includes variable-income securities purchased on a regular basis with the intention of selling them at a profit in the medium-term. At the time of purchase, the company has no intention of investing in the long-term development of the issuer's business or of actively participating in its day-to-day management.
Portfolio securities are taken to the balance sheet at cost excluding acquisition costs. At each period end, they are stated at the lower of historical cost and fair value to the Group. Fair value is determined based on a range of criteria, including the issuer's outlook and the length of the estimated holding period. For listed securities, fair value is the average market price determined over a sufficiently long period in view of the estimated holding period to eliminate the impact of any wide swings in market prices. At each period end, and for each line of securities, if the fair value represents less than carrying amount, a provision is booked for the unrealised loss. For the purpose of determining the provision, unrealised losses are not netted against unrealised gains, which are not recognised.
Gains and losses on disposals of portfolio securities are determined on a FIFO basis.

Sale and repurchase agreements and lending of securities

Securities may be sold under repurchase agreements, lent or borrowed for the purpose of reducing Dexia Crédit Local's short-term liquidity cost.
The securities may or may not be physically delivered to the buyer.
When securities are sold under a repurchase agreement, a debt corresponding to the value of the repurchase commitment is recognised on the balance sheet. The interest paid on the funds received is recognised in the income statement on an accrual basis.
Gains and losses on repurchase agreements are calculated using the same method as for outright sales, depending on the portfolio from which the securities were taken.
Transactions involving the simultaneous cash sale and forward purchase of the same securities are accounted for in the same way as repurchase agreements. The cash held in connection with repurchase agreements is periodically adjusted to take account of changes in the market value of the securities during the term of the contract, so as to reduce the credit risk incurred by the buyer as a result of any impairment in value of the collateral represented by the securities.
Loaned securities are reclassified as receivables for an amount equal to the carrying amount of the loaned securities. At each balance sheet date, the receivable is re-measured using the valuation principles applicable to the securities that have been loaned.
Borrowed securities are recorded as held-for-trading securities, with a contra entry to a liability to the lender. At each balance sheet date, the borrowed securities and the corresponding liability are re-measured using the valuation principles applicable to held-for-trading securities.

Long-term investments

Investments in associates

Investments in associates represent investments that are intended to be useful to the Group's activities over the long term. They are intended to:
- be held on a long-term basis to exercise influence or control over the issuer; or
- underpin banking relations with the company concerned.

They are stated at cost excluding any related acquisition costs.
At the balance sheet date, these shares are measured at the lower of cost and value in use, i.e. the fair value based on the utility of the investment to Dexia Crédit Local.
In the case of companies whose net assets are at least equal to their value when the last shares were acquired, with prior-year positive earnings or an outlook for genuine recovery in the current year, value in use to the Group is considered as being at least equal to the historical cost of the investment. In all other cases, a range of criteria are applied to determine the possible need to record a provision for impairment in value in accordance with the prudence principle.
In accordance with Regulation n° 2014-07, differences arising on translation at the year-end rate of investments denominated in foreign currencies that are financed in euros are taken to equity, under "Accumulated translation adjustments", and not to the income statement.
In the event of disposal of part of the Group's interest in an associate, the resulting gain or loss is determined on a FIFO basis.

Other long-term investments

This category comprises variable-income securities acquired with the aim of developing long-term business ties with the issuer, although Dexia Crédit Local is not in a position to influence the management of the issuer due to the small proportion of voting rights held. Other long-term securities are taken to the balance sheet at cost, excluding acquisition costs. At each period end, they are stated at the lower of historical cost and fair value. The fair value is determined for listed and unlisted securities held over the long term based on the amount the company would agree to pay to obtain the securities, given its investment objective, if it were to acquire them. Gains and losses on disposals of long-term investment securities are determined on a FIFO basis.

Tangible and intangible assets

These assets are stated at cost and depreciated or amortised using the straight-line method over their estimated useful life, at the rate at which their future economic benefits are consumed. Unless otherwise stated, furniture and fixtures are depreciated over ten years and office equipment generally over five years. Software is amortised over three to five years.

Other assets

This heading includes mainly collateral (guarantee deposits) receivable under swap transactions, which is recognised at its carrying amount.

Debt securities

Debt securities include bonds and negotiable debt securities.

Bonds

Bonds are recorded at face value. All related accrued interest is computed at contractual rates and recorded under interest expense.

Zero-coupon bonds are recorded at their issue price. At each period end, accrued interest for the period, computed on the basis of the yield to maturity announced at the time of issue, is charged to the income statement as expenses on debt securities and an equivalent amount is added to the debt on the liabilities side of the balance sheet until the maturity date so as to gradually increase the carrying amount of the debt to the amount repayable at maturity.
Bond issuance costs are deferred and amortised on a straight-line basis over the life of the bonds. Since 1 January 2005, premiums paid or received on bonds acquired by Dexia Crédit Local are recognised directly through profit or loss.
Bonds denominated in foreign currencies are accounted for in the same way as foreign currency transactions.

Negotiable debt securities

Negotiable debt securities are stated at face value. Interest on medium-term notes, BMTN (domestic short- or medium-term notes) and negotiable certificates of deposit is recorded under "Interest expense" on an accrual basis. Prepaid interest on commercial paper is recorded under "Accrued assets" on the transaction date and amortised over the residual life of the paper.

Discounts and premiums on debt securities

Bond discounts and premiums and redemption premiums are amortised on a straight-line basis over the remaining life of the bonds from the date of acquisition. They are recorded on the consolidated balance sheet under the relevant liabilities accounts. Amortisation is taken to the income statement under "Interest expense on bonds and other fixed-income securities".

Other liabilities

This heading includes mainly collateral (guarantee deposits) payable under swap transactions, which is recognised at its carrying amount.

Reserves

Provisions for risks and charges are set aside at their present value when:

- Dexia Crédit Local has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

General (or collective) provisions on customer loans are included in this heading. These provisions cover the risk of loss in value not covered by specific impairment where there is objective evidence that probable losses are present in certain segments of the portfolio or other lending-related commitments at the balance sheet date. These losses are estimated based upon experience, historical patterns of losses in each segment and the current economic environment in which the borrowers operate. For this purpose, Dexia Crédit Local has developed credit risk models using an approach that combines default probabilities and losses given default.
Regulatory tax reserves are set aside in the financial statements for accelerated tax depreciation. Reserves against forward and derivative financial instruments are booked in accordance with the rules specified in the paragraph concerning forward and derivative financial instruments.

Retirement and other post-employment benefits are calculated in accordance with the local regulations applicable in each country and are recognised as expenses for the year. These commitments are recalculated each year using an actuarial method and recognised under reserves in accordance with Recommendation 2013-02 on the evaluation and recognition of pension liabilities for annual and consolidated accounts prepared in accordance with French accounting standards.
These reserves also include provisions for deferred taxes.

Subordinated liabilities

Subordinated redeemable notes issued by Dexia Crédit Local are considered as Tier 2 capital for the purpose of calculating the European capital adequacy ratio, in accordance with EC Regulation n° 575/2013.

Forward and derivative financial instruments

Dexia Crédit Local uses forward and derivative financial instruments in the normal course of business, mainly as hedges against interest rate and currency risks and, to a lesser extent, in order to take advantage of favourable interest rate and currency trends. The instruments used include interest rate and/or currency swaps, FRAs, caps, floors, interest rate options, futures, credit default swaps and credit spread options.
Forward and derivative financial instruments are valued and accounted for in four transaction categories, in accordance with Regulation n° 2014-07 based on the initial purpose of the transaction.
The four transaction categories are specific hedges, macro-hedges, isolated open positions and specialist portfolio management; each has its own rules for measurement and recognition.
For transactions in all categories, the commitment or notional amount is recorded as an off-balance sheet commitment over the life of the contract, i.e. from the date of signing of the contract to its maturity or the start date of the reference period in the case of forward rate agreements. The amount of the commitment is adjusted to reflect any changes in notional amounts, so as to show at all times the maximum current or future commitment. Each contract is recorded separately and is classified in one of the above four categories. The accounting treatment of gains and losses depends on the underlying purpose of the transaction, as determined by its category.
Upfront equalisation payments on hedging transactions are amortised over the remaining life of the instrument. All transactions are amortised on a quasi-yield-to-maturity basis.

Hedging transactions

Micro hedging

Micro-hedges are used to cover interest rate risks on a specific item or group of items with similar characteristics, identified at the outset. The criteria applied to determine whether transactions qualify as micro-hedges are as follows:

- the hedged item must contribute to the bank's overall exposure to fluctuations in prices or interest rates;
- the contracts must be purchased or sold for the specific purpose, and must have the specific effect, of reducing the bank's exposure to fluctuations in prices or interest rates in respect of the hedged item and must be identified as such at the outset.

Instruments meeting this definition consist primarily of swaps acquired as micro-hedges of primary issues, bonds held in the "available-for-sale" and "held-to-maturity" port-

folios and customer loans. The hedging instruments have the effect of creating synthetic variable- or adjustable-rate assets or liabilities, which are immunised against interest rate risks.
Expenses and income on micro-hedges are recorded in the income statement in the same way as the expenses and income on the hedged item or group of similar items.
In cases where the hedged item is repaid early (or disposed of), the following accounting treatment is applied to the equalisation payment received or paid due to the early unwinding of the hedging instrument:
• if the hedge was unwound before 1 January 2005, the equalisation payment is spread over the remaining life of the cancelled transaction;
• if the hedge was unwound on or after 1 January 2005, the equalisation payment is recognised in profit or loss during the period in which the hedge was unwound. However, the equalisation payment paid by Dexia Crédit Local is charged against income only for the portion that exceeds gains not yet recorded in income on the symmetric position.
In both cases, deferred equalisation payments are recorded in accrued assets or liabilities.
• In the case where the hedging item is unwind or replaced by an other instrument with continuation of the hedged instrument, the equalization payment is spread over the remaning life of the hedged item.

Macro hedging

This category includes contracts that are intended to hedge and manage Dexia Crédit Local's overall exposure to interest rate risks on assets, liabilities and off-balance-sheet items, other than micro-hedges, contracts representing isolated open positions and contracts acquired for specialist portfolio management purposes.
Macro-hedges have the effect of reducing Dexia Crédit Local's overall exposure to interest rate risks on its business transactions.
Expenses and income on macro-hedges are recorded in the income statement on an accrual basis under "Interest expense on macro-hedges" and "Interest income on macro-hedges". The contra entry is recorded on the balance sheet in an accruals account until such time as the funds are collected or disbursed.
In the event of the unwinding of a macro-hedge, the equalisation payment is recognised as follows:
• equalisation payments on swaps unwound before 1 January 2005 are amortised when the unwinding of the position is not linked to a prior change in the overall interest rate risks to be hedged, or are taken into income symmetrically to those components that resulted in the modification of said risk.
• as from 1 January 2005, the equalisation payment is recognised through profit or loss.

Position management

Dexia Crédit Local conducts two types of position management transactions:
• specialist held-for-trading portfolio management;
• position-taking.

Specialist held-for-trading portfolio management

This activity covers transactions with local authorities and their symmetrical transactions entered into with banks. Its purpose is the specialist management of a held-for-trading portfolio comprising specific interest rate swaps and other interest rate-based derivatives.
The held-for-trading portfolio is actively managed based on sensitivity criteria, with predefined interest rate exposure limits set internally in accordance with the Arrêté of 3 November 2014 as amended. Positions are centralised and results calculated on a daily basis.
Gains and losses are recognised on a mark-to-market basis, as follows:
• total future cash flows are marked to market on a monthly basis and the resulting unrealised gain or loss is taken to the income statement;
• all payments made or received are recorded directly in the income statement.
Mark-to-market gains and losses on derivatives are calculated using the replacement cost method. This method consists of taking each individual contract and simulating a new contract, which, at the balance sheet date, closes the open position created by the original contract. The differences in cash flows between the actual and simulated contracts are then discounted.
The portfolio valuation takes into account portfolio management costs and counterparty risks.
For the purposes of this activity, the Dexia Crédit Local New York branch centrally manages the risks generated by the portfolios. Risk is transferred using internal contracts. These contracts are put in place, recorded and valued in accordance with Regulation n° 2014-07.

Position-taking

Derivatives held in the position-taking portfolio are intended to keep isolated positions open in order to take advantage of any favourable interest rate movements. The portfolio also includes all contracts (including credit derivatives) that do not fulfil the criteria for classification as specialist portfolio management.
Gains and losses are recognised in accordance with the prudence principle as follows:
• provisions for risks are booked for any unrealised losses calculated as a result of periodic mark-to-market valuations; unrealised gains are not recognised in the income statement;
• interest and equalisation payments are recognised in the income statement on an accrual basis.

Foreign exchange transactions

Dexia Crédit Local uses currency swaps and forward purchases and sales of foreign currencies to hedge its currency risks. Currency swaps are used to match funding currencies with the currencies of the assets financed. Forward purchases and sales of foreign currencies are used to offset or reduce the impact of exchange rate fluctuations on specific items or groups of similar items. A limited number of unhedged foreign exchange positions are also established in connection with Dexia Crédit Local's position-taking activities.
In accordance with Regulation n° 2014-07, currency instruments are classified as either hedged transactions or position-management transactions. This categorisation determines the applicable accounting treatment for the related gains and losses.
Currency instruments in both categories are recorded as off-balance-sheet commitments over the life of the contract, i.e. from the date of signing of the contract to the start date of the reference period.
Each contract is recorded separately and is classified in one of the above categories. The accounting treatment of gains and losses depends on the underlying purpose of the transaction, as determined by its category.

Hedging transactions

Forward points – the difference between the forward rate and the spot rate – are recognised in the income statement on an accrual basis. The position is initially recorded at the spot rate and its value is gradually adjusted over the life of the contract to take account of the forward points.

Position-transactions management

These represent forward currency transactions that do not meet the criteria for qualification as hedged forward currency transactions as defined in Regulation n° 2014-07, in that they do not relate simultaneously to loans and borrowings or to spot currency transactions. Such transactions are entered into with the aim of taking advantage of exchange rate movements.

Gains and losses on position-management transactions are determined and accounted for by translating movements in the currency accounts into euros at the forward rate applicable to the remaining terms of the contracts.

Foreign currency transactions

In accordance with Regulation n° 2014-07, Dexia Crédit Local recognises foreign currency transactions in accounts opened and denominated in each of the currencies concerned.

Specific foreign currency position accounts are maintained in each currency showing the position in that currency and the euro equivalent.

At each period end, the difference between the value of the foreign currency position account translated into euro at the year-end spot rate and the value of the foreign currency position in the euro equivalent account is taken to the income statement. Differences arising on the translation into euro of investments in foreign currency-denominated non-consolidated companies financed in euros are recorded on the balance sheet under "Accumulated translation adjustments".

Differences arising on the translation into euros of held-to-maturity securities denominated and financed in foreign currencies are recognised on a symmetrical basis with the differences arising on translation of the related financing.

The balance sheets of foreign consolidated branches of Dexia Crédit Local are translated into euros at the period-end exchange rate, with the exception of equity, which is translated at the historical rate.

Income statement items are translated at the average rate for the period. Differences arising on translation are recorded as a separate component of equity under "Accumulated translation adjustments".

Cost of risk

The cost of risk includes movements in loss reserves on interbank and customer loans, fixed-income held-to-maturity securities (in the case of recognised risk of default by the issuer) and off-balance-sheet items (other than off-balance sheet derivatives), as well as loan losses, recoveries of loans written off in prior years, and movements in other provisions and reserves for credit risks and contingencies relating to these items.

Non-recurring items

Non-recurring income and expenses result from events or transactions that do not relate to the ordinary business operations or routine management of the company's assets and liabilities.

They represent material items of income and expense that do not depend on decisions made in connection with the routine management of the business or of the company's assets and liabilities, but which result from external events that are exceptional in terms of their infrequency and their impact on net income. Only items of this nature, that have a significant impact on profit and loss for the period, are classified as non-recurring income and expenses.

Corporate income tax

The overall rate of the French CIT amounts to 34.43 % (including 33 1/3 % of CIT plus 3.3 % of additional contribution based on the CIT amount).

The French budget law for 2018 provides for a gradual reduction of the corporate tax rate. For large companies, the 33 1/3 %rate remains applicable in 2018 to taxable income exceeding EUR 0.5 million (28 % rate applicable to the income below this limit). In 2019 the rate will decrease to 31 % for taxable income exceeding EUR 0.5 million (28 % rate for the income below this limit). Moreover, the rate will continue decreasing and apply respectively to the overall income without limitation at the rate of 28 % in 2020, 26.5 % in 2021 and 25 % from 2022 onwards. The additional contribution of 3.3 % remains applicable.

The deferred tax rate for French companies within the group Dexia Crédit Local changes to 25.825 % (25 % rate of CIT plus additional contribution) , keeping in mind that in any case no deferred tax assets are recognized.

The rate applicable on contributions of foreign branches or subsidiaries is the rate applied in the countries in which they operate.

Tax consolidation

Dexia Crédit Local is in the scope of the tax consolidation the parent company of which since January 1, 2002 has been the permanent establishment (Dexia ES) located in France.

Dexia ES is solely liable for corporation tax and its additional contributions to be paid by the group. DCL's tax expense is recorded in the accounts on stand alone basis, as if there were no tax consolidation.

The savings generated by the tax consolidation group are recorded at Dexia ES (out off DCL's scope).

An amendment to the tax treaty signed in 2011 between Dexia ES and Dexia Crédit Local allows the tax savings generated by Dexia Crédit Local and its subsidiaries to be reallocated to Dexia Crédit Local.

A second amendment signed in 2012 between Dexia ES and Dexia Crédit Local aims to exclude the subsidies received from Dexia ES when calculating the tax contribution of Dexia Crédit Local when they are neutralized within the framework of the overall consolidated tax result of the group.

Locations and activities in tax haven countries and territories

In compliance with Article L.511-45 of the French Monetary and Financial Code, it should be noted that Dexia Crédit Local has no offices (branches, subsidiaries or special purpose entities), affiliates or other exclusively or jointly controlled de facto or de jure interests in entities in countries that do not have administrative assistance agreements with France.

Company consolidating the financial statements of Dexia Crédit Local

Dexia, Place du Champ de Mars 5, B-1050 Brussels, Belgium.

2. Notes to the assets

2.1. Cash, balances with central bank and post offices (item I - assets)

a. Accrued interest

	0

b. Detailed analysis, excluding accrued interest

(in EUR million)	As at 31/12/2016	As at 31/12/2017
Cash	0	0
Deposits with central banks and issuing institutions	767	404
Deposits with postal checking accounts	0	0
TOTAL	**767**	**404**

2.2. Government securities eligible for Central Bank refinancing (item II - assets)

a. Accrued interest

(in EUR million)	74

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2016	As at 31/12/2017	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
	3,123	2,663	0	136	27	2,500

c. Analysis by type of portfolio and movements for the year, excluding accrued interest

	Banking activity and other			Total
(in EUR million)	Held for trading	Available for sale	Held to maturity	
Costs as at 31/12/2016	**50**	**1,409**	**1,669**	**3,128**
Movements for the year:				
• acquisitions	0	124	0	124
• disposals and redemptions	0	(584)	(59)	(643)
• transfers	0	0	0	0
• translation adjustments	0	(7)	(1)	(8)
• other(1)	11	11	45	67
Costs as at 31/12/2017	**61**	**953**	**1,654**	**2,668**
Impairment as at 31/12/2016	**0**	**(5)**	**0**	**(5)**
Movements for the year:				
• charges	0	0	0	0
• recoveries	0	0	0	0
• translation adjustments	0	0	0	0
• other	0	0	0	0
Impairment as at 31/12/2017	**0**	**(5)**	**0**	**(5)**
NET CARRYING AMOUNT AS AT 31/12/2017	**61**	**948**	**1,654**	**2,663**

Additional information concerning government securities is provided in note 2.5
(1) the other variation on held for trading are fair value variation and on the other portfolio premium/discount variation

d. Transfers between portfolios

No transfers were made between portfolios in 2017

e. Listed and unlisted securities, excluding accrued interest

An analysis of listed and unlisted securities is presented in note 2.5.g.

2.3. Interbank loans and advances (item III - assets)

a. Accrued interest

(in EUR million)	4

b. Analysis by residual to maturity, excluding accrued interest

(in EUR million)	As at 31/12/2016	As at 31/12/2017	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Demand loans and advances	5,439	15,252	15,252	0	0	0
Term loans and advances	16,801	13,702	5,433	4,393	3,171	705
TOTAL	**22,240**	**28,954**	**20,685**	**4,393**	**3,171**	**705**

c. Analysis of non-performing loans, excluding accrued interest

No non-performing and litigious loans

d. Analysis by degree of subordination, excluding accrued interest

(in EUR million)	As at 31/12/2016	As at 31/12/2017
Subordinated interbank loans	831	223
Non-subordinated interbank loans	15,970	13,479
TOTAL	**16,801**	**13,702**

e. Analysis of subordinated non-performing loans, excluding accrued interest

No non-performing and litigious loans.

2.4. Customer loans and advances (item IV - assets)

a. Accrued interest

(in EUR million)	202

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2016	As at 31/12/2017	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity or not analysed
	34,952	**29,785**	420	2,190	4,542	22,633	0

c. Analysis by type of borrower, excluding accrued interest

	As at 31/12/2016	As at 31/12/2017		
(in EUR million)	Total	Public sector	Other sectors	Total
Performing loans	34,353	14,415	14,890	29,305
Restructured performing loans	0	0	0	0
Non-performing loans under collection	579	112	354	466
Doubtful non-performing loans	20	0	14	14
TOTAL	**34,952**	**14,527**	**15,258**	**29,785**

d. Analysis of non-performing loans, excluding accrued interest

VALUATION OF RISK (in EUR million)	As at 31/12/2016	As at 31/12/2017
Gross non-performing loans under collection	780	593
Accumulated impairment	(201)	(127)
NET NON-PERFORMING LOANS UNDER COLLECTION	**579**	**466**
Gross doubtful non-performing loans	76	68
Accumulated impairment	(56)	(54)
NET DOUBTFUL NON-PERFORMING LOANS	**20**	**14**

e. Analysis by degree of subordination, excluding accrued interest

(in EUR million)	As at 31/12/2016	As at 31/12/2017
Subordinated customer loans	4	0
Non-subordinated customer loans	34,948	29,785
TOTAL	**34,952**	**29,785**

2.5. Bonds and other fixed-income securities (item V - assets)

a. Accrued interest

(in EUR million)	282

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2016	As at 31/12/2017	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
	36,487	26,394	2,064	309	2,061	21,960

c. Analysis by type of issuer, excluding accrued intered

Analysis by type of issuer, excluding accrued intered (in EUR million)	As at 31/12/2016	As at 31/12/2017
Public sector issuers	16,010	14,931
Other issuers	20,477	11,463
TOTAL	**36,487**	**26,394**

d. Analysis by type of portfolio and movements for the year, excluding accrued interest

	Banking activity and other			Total
(in EUR million)	Held for trading	Available for sale	Held to maturity	
COSTS AS 31/12/2016	**4,414**	**19,824**	**13,308**	**37,546**
Movements for the year:				
• acquisitions(1)	615	0	0	615
• disposals and redemptions	(1,378)	(5,976)	(1,372)	(8,726)
• transfers	0	2,668	(2,668)	0
• other movements	0	(78)	27	(51)
• translation adjustments	(137)	(1,515)	(759)	(2,411)
COSTS AS 31/12/2017	**3,514**	**14,923**	**8,536**	**26,973**
IMPAIRMENT AS AT 31/12/2016	**0**	**(1,059)**	**0**	**(1,059)**
Movements for the year:				
• charges	0	0	0	0
• recoveries	0	419	0	419
• transfers	0	0	0	0
• other movements	0	0	0	0
• translation adjustments	0	61	0	61
IMPAIRMENT AS AT 31/12/2017	**0**	**(579)**	**0**	**(579)**
NET CARRYING AMOUNT AS AT 31/12/2017	**3,514**	**14,344**	**8,536**	**26,394**

(1) Held for trading acquisitions are related to bonds borrowings replaced as collateral in refinancing operations.

e. Analysis by type of portfolio

(in EUR million)	As at 31/12/2016 Held for trading	Available for sale	Held to maturity	Total	As at 31/12/2017 Held for trading	Available for sale	Held to maturity	Total
Government securities	**50**	**1,434**	**1,730**	**3,214**	**61**	**961**	**1,715**	**2,737**
Gross carrying amount	50	1,469	2,631	4,150	61	1,002	2,568	3,631
Premiums/discounts	0	(60)	(962)	(1,022)	0	(49)	(914)	(963)
Related receivables	0	30	61	91	0	13	61	74
Impairment	0	(5)	0	(5)	0	(5)	0	(5)
Market value	50	1,881	2,948	4,879	61	1,290	3,229	4,580
Bonds and other fixed-income securities	**4,414**	**18,922**	**13,539**	**36,875**	**3,514**	**14,504**	**8,658**	**26,676**
Gross carrying amount	4,414	19,716	14,251	38,381	3,514	14,990	9,251	27,755
Premiums/discounts	0	108	(943)	(835)	0	(67)	(715)	(782)
Related receivables	0	157	231	388	0	160	122	282
Impairment	0	(1,059)	0	(1,059)	0	(579)	0	(579)
Market value	4,414	21,777	17,227	43,418	3,514	17,193	11,467	32,174
Equities and other variable-income	**0**	**152**	**0**	**152**	**0**	**140**	**0**	**140**
Gross carrying amount	0	187	0	187	0	171	0	171
Premiums/discounts	0	0	0	0	0	0	0	0
Related receivables	0	0	0	0	0	0	0	0
Impairment	0	(35)	0	(35)	0	(31)	0	(31)
Market value	0	170	0	170	0	156	0	156
Total securities portfolio	**4,464**	**20,508**	**15,269**	**40,241**	**3,575**	**15,605**	**10,373**	**29,553**
PROVISIONS FOR RISKS AND CHARGES[(1)]	**0**	**1,414**	**0**	**1,414**	**0**	**829**	**0**	**829**

(1) The EUR 829 million provision for risks and charges concerns losses on hedges of available-for-sale securities. This provision is presented as a liability (see note 3.5)

f. Analysis by type of counterparty

(in EUR million)	As at 31/12/2016 Held for trading	Available for sale	Held to maturity	Total	As at 31/12/2017 Held for trading	Available for sale	Held to maturity	Total
Government securities	**50**	**1,434**	**1,730**	**3,214**	**61**	**961**	**1,715**	**2,737**
Central governments	50	1,362	1,330	2,742	61	809	1,557	2,427
Local governments	0	72	383	455	0	152	141	293
Credit institutions	0	0	17	17	0	0	17	17
Bonds and other fixed-income securities	**4,414**	**18,922**	**13,539**	**36,875**	**3,514**	**14,504**	**8,658**	**26,676**
Central governments	0	1,249	102	1,351	0	2,378	95	2,473
Local governments	775	7,748	6,326	14,849	1,368	5,757	5,505	12,630
Credit institutions	1,604	1,768	2,421	5,793	1,328	1,585	507	3,420
Other private-sector entities	2,035	8,157	4,690	14,882	818	4,784	2,551	8,153
Equities and other variable-income	**0**	**152**	**0**	**152**	**0**	**140**	**0**	**140**
Equities and other variable-income securities	0	67	0	67	0	55	0	55
Mutual funds	0	85	0	85	0	85	0	85
Total securities portfolio	**4,464**	**20,508**	**15,269**	**40,241**	**3,575**	**15,605**	**10,373**	**29,553**

g. Analysis by listing of securities

(in EUR million)	As at 31/12/2016 Held for trading	As at 31/12/2016 Available for sale	As at 31/12/2016 Held to maturity	As at 31/12/2016 Total	As at 31/12/2017 Held for trading	As at 31/12/2017 Available for sale	As at 31/12/2017 Held to maturity	As at 31/12/2017 Total
Government securities	**50**	**1,434**	**1,730**	**3,214**	**61**	**961**	**1,715**	**2,737**
Listed securities(1)	50	1,432	1,727	3,209	61	957	1,712	2,730
Unlisted securities	0	2	3	5	0	4	3	7
Bonds and other fixed-income securities	**4,414**	**18,922**	**13,539**	**36,875**	**3,514**	**14,504**	**8,658**	**26,676**
Listed securities(1)	779	7,096	7,891	15,766	363	6,021	3,735	10,119
Unlisted securities	3,635	11,826	5,648	21,109	3,151	8,483	4,923	16,557
Equities and other variable-income	**0**	**152**	**0**	**152**	**0**	**140**	**0**	**140**
Listed securities(1)	0	92	0	92	0	91	0	91
Unlisted securities	0	60	0	60	0	49	0	49
Total securities portfolio	**4,464**	**20,508**	**15,269**	**40,241**	**3,575**	**15,605**	**10,373**	**29,553**

(1) "Listed" means quoted on a securities exchange

h. Analysis by degree of subordination, excluding accrued interest

(in EUR million)	As at 31/12/2016	As at 31/12/2017
Subordinated bonds and other subordinated fixed-income securities issued by credit institutions	0	0
Subordinated bonds and other subordinated fixed-income securities issued by other issuers	0	0
Non-subordinated bonds and other non-subordinated fixed-income securities	36,487	26,394
TOTAL	**36,487**	**26,394**
of which: listed subordinated bonds and other listed subordinated fixed-income securities	0	0

i. Transfers between portfolios

(in EUR million)	From "Held to Maturity" to "Available for sale" portfolio
Carrying amount of assets reclassified as at transfer date(1)	2,726
Carrying amount of assets reclassified as at 31 december 2017	1,395
Fair value of reclassified assets as at 31 december 2017	1,914
Premium/Discount as at transfer date(1)	(181)

The decrease of the carrying amount between the transfer date and the 31/12/2017 is explained by the sale of EUR 1,309 million of notional of bonds transferred to available for sale.

j. Analysis of non-performing loans, excluding accrued interest

Valuation of risk (in EUR million)	As at 31/12/2016	As at 31/12/2017
Gross non-performing loans under collection	181	161
Accumulated impairment	(42)	(47)
NET NON-PERFORMING LOANS UNDER COLLECTION	**139**	**114**

2.6. Equities and other variable-income securities (item VI - assets)

a. Analysis by type of portfolio and movements for the year

(in EUR million)	Banking activity and other		Total
	Held for trading	Available for sale	
Costs as 31/12/2016	**0**	**186**	**186**
Movements for the year:			
• acquisitions	0	0	0
• disposals and redemptions(1)	0	(10)	(10)
• other movements	0	0	0
• translation adjustments	0	(5)	(5)
Cost as 31/12/2017	**0**	**171**	**171**
Impairment as at 31/12/2016	**0**	**(34)**	**(34)**
Movements for the year:			
• charges	0	(2)	(2)
• recoveries	0	4	4
• other movements	0	0	0
• translation adjustments	0	1	1
Impairment as at 31/12/2017	**0**	**(31)**	**(31)**
NET CARRYING AMOUNT AS AT 31/12/2017	**0**	**140**	**140**

(1) The total of EUR -10 millions corresponds to the asset refund in investment funds for EUR 7 million and to the units of UCITS refund for EUR 3 millions.

b. Transfers between porfolios (excluding insurance business)

No transfers were made between portfolios in 2017.

c. Unrealised gains and losses on variable income securities

(in EUR million)	Carrying amount as at 31/12/2017	Market value as at 31/12/2017	Net unrealised capital gain as at 31/12/2017
SECURITIES	**140**	**156**	**16**

2.7. Long-term equity investments (item VII - assets)

a. Accrued interest

(in EUR million)	0

b. Analysis by type of issuer and movements for the year

(in EUR million)	Related parties	Other long-term equity investments	Total
Cost as at 31/12/2016	**4,005**	**16**	**4,021**
Movements for the year:			
• acquisitions	0	0	0
• disposals and redemptions(1)	(86)	(3)	(89)
• transfers	0	0	0
• translation adjustments	0	0	0
• other movements	0	0	0
Cost as at 31/12/2017	**3,919**	**13**	**3,932**
Impairment as at 31/12/2016	**(3,426)**	**(7)**	**(3,433)**
Movements for the year:			
• charges(2)	(233)	0	(233)
• recoveries	0	0	0
• reversals	0	0	0
• transfers	0	0	0
• translation adjustments	0	0	0
• other movements	0	0	0
Impairment as at 31/12/2017	**(3,659)**	**(7)**	**(3,666)**
NET CARRYING AMOUNT AS AT 31/12/2017	**260**	**6**	**266**

(1) The movements correspond to the liquidation of Dexia CLF Banque and CBXIA2 of EUR 86 million following the universal transfers of assets within Dexia Crédit Local.

(2) An impairment of securities for EUR 233 million has been constituted to Dexia Kommunalbank Deutchland AG.

c. Listing of securities

(in EUR million)	Net carrying amount as at 31/12/2017	Market value as at 31/12/2017	Unrealised capital gain as at 31/12/2017
Listed securities[3]	56	89	33
Unlisted securities	210		
TOTAL	266		

(3) Dexia Israel securities listed on the stock market

d. Significant investments

(in EUR million)	Gross carrying amount as at 31/12/2017	Impairment as at 31/12/2017	Net carrying amount as at 31/12/2017
Listed securities	56	0	56

Unlisted securities (in EUR million)	Gross carrying amount as at 31/12/2017	Impairment as at 31/12/2017	Net carrying amount as at 31/12/2017	% interest in capital	Interest in capital as at 31/12/2017	Last balance sheet date
TOTAL	3,932	(3,666)	266			
of which:						
DEXIA HOLDINGS Inc.	2,283	(2,283)	0	100.00 %	(87)	31/12/17
DEXIA KOMMUNALBANK DEUTSCHLAND AG	793	(793)	0	100.00 %	665	31/12/17
DEXIA CREDIOP	581	(581)	0	70.00 %	680	31/12/17
DEXIA FLOBAIL	197	0	197	100.00 %	15	31/12/17
DEXIA ISRAEL BANK LTD	56	0	56	58.89 %	99	31/12/17
DEXIA CLF REGIONS BAIL	8	0	8	100.00 %	32	31/12/17

2.8. Intangible assets (item VIII - assets)

Detailed analysis and movements for the year

(in EUR million)	Start-up costs	Other intangible assets	Total
GROSS CARRYING AMOUNT AS AT 31/12/2016	0	159	159
Movements of the year:			
• increases	0	11	11
• decreases	0	0	0
• other	0	0	0
• translation adjustmens	0	(2)	(2)
GROSS CARRYING AMOUNT AS AT 31/12/2017	0	168	168
Amortisation and impairment as at 31/12/2016	**0**	**(131)**	**(131)**
Movements for the year:			
• charges	0	(9)	(9)
• recoveries	**0**	0	0
• other	0	0	0
• translation adjustments	0	2	2
Amortisation and impairment as at 31/12/2017	**0**	**(138)**	**(138)**
NET CARRYING AMOUNT AS AT 31/12/2017	0	30	30

Intangible assets primarily include software purchased and in-house software development costs that have been capitalised.

2.9. Tangible fixed assets (item IX - assets)

Detailed analysis and movements for the year

(in EUR million)	Land and buildings	Fixtures, equipment, furniture and vehicles	Other tangible non-current assets	Assets under construction and prepayments	Total
COST AS AT 31/12/2016	0	7	20	0	27
Movements of the year:					
• increases	0	0	0	0	0
• decreases	0	0	(1)	0	(1)
• other	0	0	0	0	0
• translation adjustmens	0	0	(1)	0	(1)
COST AS AT 31/12/2017	0	7	18	0	25
AMORTISATION AND IMPAIRMENT AS AT 31/12/2016	0	(6)	(18)	0	(24)
Movements for the year:					
• charges	0	0	(1)	0	(1)
• recoveries	0	0	0	0	0
• other	0	0	0	0	0
• translation adjustments	0	1	1	0	2
AMORTISATION AND IMPAIRMENT AS AT 31/12/2017	0	(5)	(18)	0	(23)
NET CARRYING AMOUNT AS AT 31/12/2017	0	2	0	0	2

2.10. Other assets and accruals (items XIII and XIV - assets)

Detailed analysis of other assets and accruals

(in EUR million)	As at 31/12/2016	As at 31/12/2017
OTHER ASSETS		
Premiums paid on swaptions issued	11	9
Premiums paid on options	5	4
Guarantee deposits paid[(1)]	27,434	22,404
Tax receivables	0	0
Deferred tax assets	271	37
Other non-current financial assets	0	0
Other	285	222
TOTAL OTHER ASSETS	28,006	22,676

(1) Guarantee deposits paid consist nearly entirely of collateral deposited under contracts with the primary counterparties trading on derivatives markets.

(in EUR million)	As at 31/12/2016	As at 31/12/2017
ACCRUALS		
Premiums and deferred charges on borrowings	53	63
Premiums on loans and other deferred charges on loans	98	115
Premiums and deferred charges on hedging transactions	878	1,042
Premiums and deferred charges on trading transactions	944	822
Accrued income on hedging transactions	591	583
Accrued income on trading transactions	5,036	4,097
Unrealised translation losses	234	266
Other accrued income	235	73
TOTAL ACCRUALS	8,069	7,061

2.11. Analysis of assets by currency

Classification by original currency

(in EUR million)	As at 31/12/2017
In EUR	74,443
In other EU currencies	15,096
In all other currencies	29,398
TOTAL ASSETS	118,937

3. Notes to the liabilities and equity

3.1. Interbank borrowings and deposits (item I - liabilities and equity)

a. Accrued interest

(in EUR million)	45

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2016	As at 31/12/2017	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Demand deposits[1]	1,390	138	138	0	0	0
Term deposits	38,877	30,815	12,219	4,947	10,779	2,870
TOTAL	**40,267**	**30,953**	**12,357**	**4,947**	**10,779**	**2,870**

(1) Funding from central banks came to EUR 15 million as at 31 December 2017 (EUR 35 million the previous year)

3.2. Customer deposits (item II - liabilities and equity)

a. Accrued interest

	0

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2016	As at 31/12/2017	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Demand deposits	0	0	0	0	0	0
Term deposits	163	8	0	7	0	1
TOTAL	**163**	**8**	**0**	**7**	**0**	**1**

c. Analysis by type of issuer, excluding accrued interest

(in EUR million)	As at 31/12/2016	As at 31/12/2017
Public sector	0	0
Other sectors	163	8
TOTAL	**163**	**8**

3.3. Debt securities (item III - liabilities and equity)

a. Accrued interest

(in EUR million)	225

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2016	As at 31/12/2017	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Interbank and other negotiable debt securities	67,361	66,092	9,814	18,466	28,450	9,362
Debt securities	8,335	4,536	871	479	2,737	449
TOTAL	**75,696**	**70,628**	**10,685**	**18,945**	**31,187**	**9,811**

As at 31 December 2017, Dexia Credit Local's issues are covered by the State guarantee mechanism for EUR 67,6 billion.

c. Analysis by type of security and movements for the year, excluding accrued interest

(in EUR million)	Interbank and other negotiable debt securitites	Debt securities	Securities borrowings	Total
AS AT 31/12/2016	67,362	7,805	529	75,696
Movements for the year:				
• new issues	34,852	975	911	36,738
• redemptions	(34,265)	(5,250)	(457)	(39,972)
• translation adjustments	(1,856)	21	0	(1,835)
• other				
AS AT 31/12/2017	66,093	3,551	983	70,627

3.4. Other liabilities and accruals (item IV and V - liabilities and equity)

Details of other liabilities and accruals

Accruals and other liabilities (in EUR million)	As at 31/12/2016	As at 31/12/2017
OTHER LIABILITIES		
Guarantee deposits received[1]	3,778	3,234
Premiums on options sold	3	3
Other creditors	837	1,400
TOTAL OTHER LIABILITIES	4,618	4,637
ACCRUALS		
Deferred income on loans	66	51
Discounts recognised on purchase of receivables	11	11
Deferred income on hedging transactions	1,450	1,474
Deferred income on trading transactions	1,287	1,324
Deferred gains on hedging contracts	33	28
Accrued charges on hedging transactions	990	805
Accrued charges on trading transactions	5,228	4,293
Unrealised translation gains	206	197
Other deferred income	19	5
Other accrued charges	48	37
Other accrued liabilities	778	192
TOTAL ACCRUALS	10,116	8,417

(1) Evolution of cash collateral received

3.5. Provisions for risks and charges (item VI - liabilities and equity)

(in EUR million)	As at 31/12/2016	Charges	Recoveries	Transfers	Translation adjustments	As at 31/12/2017
PROVISIONS FOR RISKS AND CHARGES	1,820	440	(950)	(1)	(125)	1,184
• Pensions and similar commitments[1]	4	1	(2)	(1)	0	2
• Financing commitments	194	44	(69)	0	(1)	168
• Other financial instruments[2]	1,414	373	(834)	0	(124)	829
• Other risks and charges[3]	208	22	(45)	0	0	185
PROVISIONS FOR DEFERRED TAXES	234	0	(234)	0	0	0
REGULATED PROVISIONS	1	0	(1)	0	0	0
• Provisions for medium and long-term loans	0	0	0	0	0	0
• Provisions for accelerated tax depreciation	1	0	(1)	0	0	0
• Provisions for investments	0	0	0	0	0	0
TOTAL	2,055	440	(1,185)	(1)	(125)	1,184

(1) Provisions for termination benefits and long-service awards. The transfer amount corresponds to the termination benefits of employees transferred to Cognizant.
(2) Provisions for risks on other financial instruments are presented in note 2.5 e for the breakdown by type of portfolio.
(3) Other provisions for risks and charges in 2017 primarily include a provision relating to the loan desensitisation activity for EUR 98 million.

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3.6. Subordinated debt (item VIII - liabilities and equity)

a. Accrued interest

(in EUR million)	0

b. Movements for the year, excluding accrued interest

(in EUR million)	Total
AS AT 31/12/2016	**434**
Movements of the year:	
• new issues	0
• redemptions	(252)
• translation adjustments	0
• other movements	0
AS AT 31/12/2017	**182**

c. Details of individual subordinated borrowings

Currency	Maturity	Amount in millions	a) Early repayment conditions b) Subordination conditions c) Convertibility conditions	Interest rate (%)
EUR	12/02/19	106	a) Early repayment possible at each due date for interest payments with effect from 12/02/2014 after approval by the French Prudential Control Authority	Fixed rate 4,375 From 12/02/2014 Euribor 3M + 0,72
			b) Repayment at per value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares	
			c) No conversion	
EUR	No fixed maturity	56	a) Early repayment possible at each due date for interest payments with effect from 18/11/2015 after approval by the French Prudential Control Authority	Fixed rate 4,30 from 2015 EURIBOR 3M + 1,73
			b) Repayment at per value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares	
			c) No conversion	
EUR	29/10/18	20	a) Early repayment possible at each due date for interest payments with effect from 02/07/2013 after approval by the French Prudential Control Authority	EURIBOR 3M + 0,15 From 02/07/2013, EURIBOR 3M + 0,5
			b) Repayment at per value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares	
			c) No conversion	

3.7. Equity

Detailed analysis of equity

(in EUR million)	Amount
AS AT 31/12/2016:	
Capital stock	279
Additional paid-in capital	2,588
Commitments to increase capital stock and additional paid-in capital	0
Legal reserve	50
Non-distributable reserve	0
General reserves	0
Retained earnings	(818)
Translation adjustments	(347)
Net loss for the year	(217)
Interim dividends	0
EQUITY AS AT 31/12/2016	**1,535**
Movements for the year:	
Capital stock	0
Additional paid-in capital	0
Commitments to increase capital stock and additional paid-in capital	0
Reserves and retained earnings(1)	(217)
Legal reserve	0
Non-distributable reserve	0
Translation adjustments	118
Dividends paid (-)	0
Net loss for the year	1,004
Other movements	0
AS AT 31/12/2017	
Capital stock	279
Additional paid-in capital	2,588
Commitments to increase capital stock and additional paid-in capital	0
Legal reserve	50
Non-distributable reserve	0
General reserves	0
Retained earnings	(1,034)
Translation adjustments	(229)
Net profit for the year(2)	1,004
Interim dividends	0
EQUITY AS AT 31/12/2017	**2,658**

(1) The Ordinary General Meeting on 16 May 2017 resolved to allocate the EUR -217 million loss for 2016 to retained earnings, bringing the latter to EUR -1,034 million.

(2) A proposal was submitted to the ordinary shareholders' meeting on 15 May 2018 to allocate the net profit for the year to the retained earnings.

3.8. Analysis of liabilities and equity by currency

Classification by currency of origin (in EUR million)	**As at 31/12/2017**
In EUR	74,896
In other EU currencies	15,096
In all other currencies	28,945
TOTAL LIABILITIES AND EQUITY	**118,937**

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3.9. Other notes to the balance sheet

Transactions with related parties - Analysis by type

(in EUR million)			Total	Of which, related parties[1]
Assets	Items III and IV	Interbank loans and advances and Customer loans and advances	58,945	15,604
	Items V, VI and VII	Securities held	27,082	22
	Items XIII and XIV	Other assets and accruals	29,737	427
Liabilities	Items I and II	Interbank borrowings and deposits and customer deposits	31,006	858
	Items III	Debt securities	70,853	0
	Items VIII	Subordinated debt	182	0
	Items IV and V	Other liabilities and accruals	13,054	419

(1) Related parties correspond to those from the Dexia Group's consolidation scope.

4. Notes to the off-balance sheet items

4.1. Financing commitments given (item I - off balance sheet)

This item includes financing commitments given and commitments given on securities and on loaned foreign currencies. Financing commitments on loans and lines of credit include loans approved but not disbursed as at 31 December 2017.

Analysis by type of beneficiary

(in EUR million)	As at 31/12/2016	As at 31/12/2017
Commitments to credit institutions	794	5,800
Commitments to customers	2,496	1,568
Currencies lent but not yet delivered	0	450
TOTAL	**3,290**	**7,818**

4.2. Guarantee commitments given (item II - off-balance sheet)

a. Analysis by type of beneficiary

(in EUR million)	As at 31/12/2016	As at 31/12/2017
Commitments to credit institutions	29,991	1,530
Commitments to customers	3,685	2,542
TOTAL	**33,676**	**4,072**

b. Analysis by type of transaction

(in EUR million)	As at 31/12/2016	As at 31/12/2017
Guarantee commitments given:		
• guarantees	33,676	4,072
• endorsements	0	0
• liens on assets	0	0
TOTAL	**33,676**	**4,072**

c. Contingent liabilities and risks and losses not quantifiable at the date of preparation of the financial statements

At the date when the annual financial statements were prepared, there were no contingent liabilities, risks or losses that were not quantifiable.

4.3. Assets pledged as collateral (item III - off balance-sheet)

(in EUR million)	As at 31/12/2016[1]	As at 31/12/2017[1]
As collateral for debts and commitments of the company	0	0
Balance sheet liabilities	0	0
Off-balance sheet items	38,534	31,141
TOTAL	**38,534**	**31,141**

(1) Carrying amount of the assets pledged.

4.4. Financing and guarantee commitments received (item IV and V - off-balance sheet)

These items include all financing commitments and guarantees received from credit institutions, and commitments received on securities and foreign currency borrowings.

(in EUR million)	As at 31/12/2016	As at 31/12/2017
Financing commitments received from credit institutions	5,718	4,453
Currencies borrowed but not yet received	0	548
Guarantees received from credit institutions	2,427	1,943
Guarantees received from local authorities or claims on local authorities acquired as guarantees	5,335	3,472
Other commitments received	10,723	10,670
TOTAL	**24,203**	**21,086**

4.5. Commitments related to securities (item VI - off-balance sheet)

a. Analysis by type of transaction

(in EUR million)	As at 31/12/2016	As at 31/12/2017
Purchases		
• spot	0	0
• forward	0	0
Sales		
• spot	0	0
• forward	0	0
TOTAL	**0**	**0**

b. Isolated open positions

Unrealised gains on isolated open positions	0

4.6. Commitments related to foreign currency transactions (item VII - off-balance sheet)

Spot and forward currency transactions are presented at their value in their accounting currency, translated at the closing foreign exchange rate at year-end.

The line "Foreign currencies to be received" amounted to EUR 28.4 billion and the line "Foreign currencies to be delivered" to EUR 28.1 billion as at 31 December 2017.

4.7. Commitments related to forward and derivative financial instruments (item VIII - off-balance sheet)

a. Analysis by type of use and instrument

Type of transaction (in EUR million)	As at 31/12/16	As at 31/12/17	Hedging		Trading		Fair value as at 31/12/17
			Micro-hedging	Macro-hedging	Isolated open position	Specialised trading portfolio management	
Foreign currency instruments[1]	29,503	28,109	6,313	16,110	1,421	4,265	(246)
• forward currency purchases and sales	12,001	15,472	0	14,580	892	0	
• currency and interest rate swaps	17,502	12,637	6,313	1,530	529	4,265	(246)
• currency futures	0	0	0	0	0	0	0
• currency options	0	0	0	0	0	0	0
• forward currency agreements	0	0	0	0	0	0	0
Other financial instruments	295,395	274,778	68,723	82,964	1,337	121,754	(13,800)
Interest rate instruments[2]							
• interest rate swaps	288,393	269,270	66,275	82,964	46	119,985	(13,925)
• futures	1,498	1,202	0	0	550	652	0
• forward rate agreements	0	0	0	0	0	0	0
• interest rate options	1,895	1,638	521	0	0	1,117	11
Other forward purchases and sales[3]							
• other options	3,609	2,668	1,927	0	741	0	114
• other futures	0	0	0	0	0	0	0
• other forward purchases and sales	0	0	0	0	0	0	0
TOTAL	**324,898**	**302,887**	**75,036**	**99,074**	**2,758**	**126,019**	**(14,046)**

(1) Amount to be delivered
(2) Face value / notional amount.
(3) Purchase / selling price agreed between the parties

b. Analysis by type of market

Type of transaction (in EUR million)	Over -the-counter market	Organised market	Total as at 31/12/2017
Foreign currency instruments	28,109	0	28,109
Other financial instruments:			
• interest rate instruments	271,458	652	272,110
• other forward purchases and sales	2,668	0	2,668
TOTAL	**302,235**	**652**	**302,887**

c. Analysis of forward contracts and options

Type of transaction (in EUR million)	Forward contracts	Options	Total as at 31/12/2017
Foreign currency instruments	28,109	0	28,109
Other financial instruments:			
• interest rate instruments	270,964	1,146	272,110
• other forward purchases and sales	2,082	586	2,668
TOTAL	**301,155**	**1,732**	**302,887**

d. Analysis by residual maturity

Type of transaction (in EUR million)	Up to 1 year	1 to 5 years	Over 5 years	Total at at 31/12/2017
Foreign currency instruments	15,564	1,547	10,998	28,109
Other financial instruments:				
• interest rate instruments	67,910	39,397	164,803	272,110
• other forward purchases and sales	33	0	2,635	2,668
TOTAL	**83,507**	**40,944**	**178,436**	**302,887**

e. Off-balance sheet forward transactions, including securities, currencies and other forward and derivative financial instruments

Commitments related to interest rate derivatives are recorded in compliance with ANC Regulation 2014-07:
• forward contracts are carried at the nominal value of the contracts;
• options are carried at the nominal value of the underlying instrument.

Dexia Credit Local uses forward financial instruments as part of the three following strategies:

• Asset liability management

This includes all transactions intented to cover and manage the total interest rate exposure of the Company. ALM is carried out primarily through the use of swaps and futures contracts.

• Specific hedging

Hedges are used to cover interest rate risks on a specific item or a group of items with similar characteristics, identified at the outset.

Intruments meeting this definition consist primarily of swaps acquired as micro hedges of primary issues, bonds in the available for sale or held to maturity portfolios, and Customer loans. The hedging instruments have the effect of creating synthetic variable or adjustable-rate assets or liabilities, which are immunised against interest rate risks.

Foreign currency swaps are also classified as hedges when they are used to transform sources of funding in one currency into the currency used in the transactions they finance in the goal of reducing currency risk.

• Position management

The position management strategy includes two types of activities:
– specialist trading portfolio management;
– position-taking.

The specialist trading portfolio management activity includes all transactions entered into with local authorities and the symmetrical transactions executed with banking counterparties. The transactions include primarily interest rate swaps. Specialised duration management is employed for the transactions included in this activity.

Derivatives held in the position-taking portfolio are intented to keep isolated open positions in order to take advantage of any favourable movements in interest rates or exchange rates. These transactions include primarily interest rate swaps and forward foreign exchange transactions.

f. Risk monitoring

Risk is measured by the Risk Management department. The main risk indicator used by Dexia Credit Local, and throughout the entire Dexia Group, is VaR. The VaR calculated by the Dexia Group measures the potential loss over a 99% confidence interval over a 10-day period. The risk management system consists of allocating to each entity, and for each type of financial market activity, the following items:
• a list of foreign currencies and transactional structures likely to be used;
• a VaR limit.

4.8. Transactions with related parties

Analysis by type

(in EUR million)			Total	Of which, related parties[1]
Off-balance sheet	Item I	Financing commitments given	7,818	6,822
	Item II	Guarantee commitments given	4,072	1,387
	Item IV	Financing commitments received	5,001	0
	Item V	Guarantee commitments received	16,085	548
	Items III, VI, VII et VIII	Other commitments given and received	362,711	600

(1) Related parties are entities included within the consolidation scope of the Dexia Group.

5. Notes to the income statement

5.1. Interest income and interest expense (items I and II - income statement)

(in EUR million)		As at 31/12/2016	As at 31/12/2017
INTEREST INCOME ON:			
Interbank loans	(a)	211	265
Customer loans and advances	(b)	1,978	795
Bonds and other fixed-income securities	(c)	1,264	1,279
Macro hedging transactions	(d)	1,311	761
TOTAL INTEREST INCOME		**4,764**	**3,100**
INTEREST EXPENSE ON:			
Interbank borrowings and deposits	(a)	(480)	(531)
Customer deposits	(b)	(1,378)	(128)
Bonds and other fixed-income securities	(c)	(891)	(824)
Macro hedging transactions	(d)	(1,772)	(1,213)
TOTAL INTEREST EXPENSE		**(4,521)**	**(2,696)**
NET INTEREST EXPENSE		**243**	**404**

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a. Interest income and expense on interbank transactions

This item includes EUR 36 million on transactions with related parties.

It also includes an expense relating to the sovereign guarantee amounting to EUR 38 million in 2017 (EUR 31.5 million in 2016).

b. Interest income and expense on customer transactions

Interest income and expense on customer loans and deposits represented a net amount of EUR 667 million.

It also includes EUR 65 million in income from financing commitments and guarantees.

c. Interest income and expense on bonds and other fixed-income securities

The heading includes EUR 1,279 million in accrued interest on bonds and other fixed-income securities, amortisation of discounts and premiums on held-to-maturity and available-for-sale securities, and the related hedging gains and losses on these securities.

Interest expense amounted to EUR 824 million for Dexia Credit Local.

In addition to interest expense on bonds and other fixed-income securities, the heading also includes interest rate hedging gains and losses on specifically identified negotiable debt, bond and subordinated debt issues.

d. Income and expense on macro-hedging transactions

Income and expense on macro-hedging transactions amounted to EUR 761 million and EUR 1,213 million respectively.

5.2. Income from variable-income securities (item III - income statement)

(in EUR million)	As at 31/12/2016	As at 31/12/2017
Related parties[(1)]	0	49
Other related parties and long-term investments	0	4
Equities and other variable-income securities	13	1
TOTAL	**13**	**54**

(1) Of which dividends received from Dexia Israel Bank Ltd for EUR 48.5 million

5.3. Analysis of fees and commissions (items IV and V - income statement)

a. Analysis of fee and commission income (item IV - income statement)

Type (in EUR million)	As at 31/12/2016	As at 31/12/2017
Loans	0	0
Other financial services	2	1
TOTAL	**2**	**1**

b. Analysis of fee and commission expenses (item V - income statement)

Type (in EUR million)	As at 31/12/2016	As at 31/12/2017
Loans	0	0
Corporate actions	(7)	(8)
Other financial services	(5)	(5)
TOTAL	**(12)**	**(13)**

5.4. Analysis of gains and losses on portfolio transactions (item VI - income statement)

(in EUR million)	As at 31/12/2016	As at 31/12/2017
Gains (losses) on:		
• held-for-trading securities	47	10
• foreign currency transactions	66	73
• other financial instruments	(136)	(89)
Sub-total	**(23)**	**(6)**
• available-for-sale and similar securities[(1)]	365	933
Sub-total	**365**	**933**
• Held-to-maturity securities	**84**	**62**
Sub-total	**84**	**62**
TOTAL	**426**	**989**

(1) This line includes gains and losses on disposal and charges of recoveries from provisions in respect of the available-for-sale securities, as well as gains and losses on portfolio securities.

Gains and losses on disposal and charges or recoveries from provisions on portfolio securities are as follows:

(in EUR million)	As at 31/12/2016	As at 31/12/2017
• charges to impairment	(1,573)	(414)
• recoveries of impairment	1,766	1,299
Sub-total	**193**	**885**
• disposal losses	(3)	(605)
• disposal gains	175	653
Sub-total	**172**	**48**
TOTAL	**365**	**933**

5.5. General operating expenses (item IX - income statement)

a. Detailed analysis

(in EUR million)	As at 31/12/2016	As at 31/12/2017
Personnel costs	**(125)**	**(125)**
• Salaries and wages	(81)	(73)
• Social security	(43)	(39)
• Restructuring cost	(1)	(13)
Other administrative expenses	**(162)**	**(186)**
• Taxes and duties	(56)	(61)
• Other administrative expenses	(106)	(125)
TOTAL	**(287)**	**(311)**

b. Employee Information

	31/12/2016	31/12/2017
Total employee as at 31 December	**811**	**683**
• executive management	44	42
• other management	594	507
• administrative personnel	173	134
Personnel costs (in EUR million)	**(125)**	**(128)**
• salaries and direct benefits	(81)	(76)
• payroll taxes	(28)	(23)
• other personnel costs	(16)	(29)
Provisions for pensions (in EUR million)	**0**	**3**
• charges (-)	(3)	(2)
• recoveries (+)	3	5
TOTAL	**(125)**	**(125)**

5.6. Cost of risk (item XI - income statement)

(in EUR million)	Charges and losses	Reversals and recover	Total as at 31/12/2017
Provisions for impairment and losses on loans	(114)	125	11
Provisions for risks	(44)	100	56
Regulatory provisions	0	0	0
TOTAL	**(158)**	**225**	**67**

The cost of risk came out at EUR +67 million in 2017 and essentially comprised:

- a EUR 27 million specific provision decrease on customer loans relating to desensitization loan,
- significant reversals of provisions related to the disposal of assets
- provision strengthening on Puerto Rico exposures.

5.7. Net gains (losses) on non-current assets (item XII - income statement)

a. Detailed analysis

(in EUR million)	As at 31/12/2016		Total as at 31/12/2016	As at 31/12/2017		Total as at 31/12/2017
	Affiliated entreprises	Others		Affiliated entreprises	Others	
Charges to impairment[1]	(560)	0	(560)	(233)	0	(233)
Recoveries of impairment	0	0	0	0	0	0
SUB-TOTAL	**(560)**	**0**	**(560)**	**(233)**	**0**	**(233)**
Disposal losses	(2)	0	(2)	0	0	0
Disposal gains[2]	12	0	12	0	71	71
SUB-TOTAL	**10**	**0**	**10**	**0**	**71**	**71**
TOTAL	**(550)**	**0**	**(550)**	**(233)**	**71**	**(162)**

(1) The amount of EUR 233 million corresponds to the provisionning of Dexia Kommunalkredit Deutchland AG securities
(2) Include the realized gain of EUR 62 million linked to the CBXIA2 merger and EUR 13 million relating to the CLF Banque merger.

b. Analysis by type

(in EUR million)	As at 31/12/2016	As at 31/12/2017
Investments in associates	0	71
Investments in related parties	(550)	(233)
TOTAL	**(550)**	**(162)**

5.8. Other banking income and expenses

a. Other banking income (item VII - income statement)

(in EUR million)	As at 31/12/2016	As at 31/12/2017
Other banking income	1	0
Other miscellaneous income	18	2
TOTAL	**19**	**2**

b. Other banking expenses (item VIII - income statement)

(in EUR million)	As at 31/12/2016	As at 31/12/2017
Other banking expenses	0	(1)
Other miscellaneous expenses	(31)	(9)
TOTAL	**(31)**	**(10)**

5.9. Non-recurring items (item XIII - income statement)

(in EUR million)	As at 31/12/2016	As at 31/12/2017
Non-recurring income	0	0
Non-recurring expenses	0	0

5.10. Corporate income tax (item XIV - income statement)

a. Analysis of tax expense

(in EUR million)	As at 31/12/2016	As at 31/12/2017
Corporate income tax	28	(5)
Deferred taxes	1	(1)
TAXES ON NET INCOME FOR THE YEAR (A)	**29**	**(6)**
Provisions for tax litigation	(52)	(1)
OTHER TAXES (B)	**(52)**	**(1)**
TOTAL (A) + (B)	**(23)**	**(7)**

In 2017, the tax rate used for France was 25,825%.
The tax rate applicable to foreign branches is generally lower.

In the light of Dexia Crédit Local's position and the likelihood of its ability to recover deferred taxes, deferred taxes have been accrued.

b. Exceptions to the general valuation principles, as provided for by tax law

(in EUR million)	As at 31/12/2016	As at 31/12/2017
REGULATORY PROVISIONS	**0**	**0**
Provision for medium - and long-term loans	0	0
Provision for investments	0	0
ACCELERATED TAX DEPRECIATION	**0**	**1**

c. Tax consolidation

The Dexia établissement stable (Dexia ES) in France has been head of the tax consolidation group that includes Dexia Credit Local since 2002.
An amendment to the tax convention between Dexia ES and Dexia Credit Local, signed in 2011, now allows the tax savings generated by Dexia Crédit Local and its subsidiaries to be reallocated to Dexia Credit Local.

In terms of calculating Dexia Credit Local's tax contribution, a second amendment, signed between Dexia ES and Dexia Credit Local in 2012, is intented to eliminate subsidies received from Dexia ES when they are neutralised in connection with the tax consolidation group's overall earnings.

5.11. Financial relationships with members of the Management Board and the Board of Directors

(in EUR million)	
COMPENSATION PAID TO THE MEMBERS OF THE MANAGEMENT BOARD AND THE BOARD OF DIRECTORS OF THE COMPANY IN RESPECT OF THEIR FUNCTIONS WITHIN THE COMPANY AND ITS SUBSIDIARIES AND ASSOCIATED COMPANIES	
Management Board	2
Board of Directors	0
TOTAL	**2**

AMOUNT OWED, CONTINGENT LIABILITIES IN THEIR FAVOUR AND OTHER MATERIAL COMMITMENTS UNDERWRITTEN IN THEIR FAVOUR	
Management Board	0
Board of Directors	0
TOTAL	**0**

5.12. Analysis by geographical region

	As at 31/12/2017		
(in EUR million)	Net banking income	Gross operating income	Net income (loss)
France	505	253	143
Foreign branches	922	853	861
TOTAL	**1,427**	**1,106**	**1,004**

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6. Subsidiaries and equity investments as at 31 december 2017

Company	Capital Stock	Additional paid-in capital, reserves and retained earnings	Revenue or net banking income (loss) for last fiscal year	Net income (loss) for last fiscal year
1 - DETAILS OF SUBSIDIARIES AND EQUITY INVESTMENTS WHOSE CARRYING AMOUNT EXCEEDS 1% OF DEXIA CRÉDIT LOCAL'S CAPITAL STOCK				
A - SUBSIDIARIES (50% TO 100% OF EQUITY)				
(in EUR)				
Dexia Crediop Via Venti settembre N. 30 - I00187 Roma	450,210,000	518,739,510	36,177,441	1,994,281
Dexia Holdings INC.[1] 445 Park Avenue, 7th floor, NY 10022 New York	2,200,423,087	(2,292,752,024)	6,890,042	5,541,449
Dexia Kommunalbank Deutschland AG[2] Charlottenstr. 82 - D - 10969 Berlin	432,500,000	232,464,605	(23,914,429)	(73,697)
Dexia Israël Bank Ltd 19 Ha'arbaa Str, Hatichon Tower - Tel Aviv 64739	42,366,568	115,204,383	21,531,733	11,198,424
Dexia Flobail 1 Passerelle des Reflets - Tour Dexia La Défense 2 - 92913 La Défense	197,100,166	(178,047,257)	(2,189,589)	(3,950,031)
Dexia CLF Regions Bail 1 Passerelle des Reflets - Tour Dexia La Défense 2 - 92913 La Défense	7,625,000	21,095,660	3,275,484	4,260,622

(1) Companies that produce financial statements only under IFRS.

(2) The status of Dexia Kommunalbank Deutschland changed from AG to German Gmbh on March 16, 2018.

2 – GENERAL INFORMATION
A - OTHER SUBSIDIARIES NOT INCLUDED IN SECTION 1-A AND EQUITY INVESTMENTS WHERE EQUITY IS HIGHER THAN 10%
- French companies
- Foreign companies
B - OTHER SUBSIDIARIES NOT INCLUDED IN SECTION 1-B AND EQUITY INVESTMENTS WHERE EQUITY IS LESS THAN 10%
- French companies
- Foreign companies

Interest in equity (%)	Carrying amount of stock		Dividends received by Dexia Crédit Local during the fiscal year	Loans and advances granted by Dexia Crédit Local	Guarantees given by Dexia Crédit Local	Activity
	Gross	Net				
70.00 %	581,223,585	0	0	7,991,978,430	5,373,386,862	Bank, credit institution
100.00 %	2,283,076,144	1	0	116,686,114	0	Holding company
100.00 %	793,339,375	0	0	3,269,291,791	500,000,000	Bank, credit institution
58.89 %	56,002,387	56,002,387	48,388,371	36,047,188	21,975,933	Bank, credit institution
100.00 %	197,111,054	197,111,054	0	321,896,904	1,029,602,948	Lease financing of local investments
100.00 %	7,941,401	7,941,401	0	403,846,229	261,561,009	Real estate leasing

	1,250,592	237,496	0	241,655,763	2,643,650	
	2,586,944	470,308	3,883,332	0	0	
	9,314,077	4,667,808	411,440	363,363,184	11,897,829	
	0	0	0	0	0	

Statutory auditors' report on the financial statements

For the year ended December 31st, 2017

To the annual general meeting of Dexia Crédit Local,

Opinion

In compliance with the assignment entrusted to us by your annual general meeting, we conducted our audit of Dexia Crédit Local financial statements, for the year ended December 31st, 2017.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company and of the results of its operations for the year then ended in accordance with French accounting principles.

The following audit opinion is consistent with our own report to the executive committee.

Basis for opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Financial Statements" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1st, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in the French Code of ethics ("Code de déontologie") for statutory auditors.

Justification of Assessments – Key Audit Matter

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code relating to the justification of our assessments, we inform you of the following assessments that, in our professional judgment, were of most significance in our audit of the financial statements of the current period.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

The ability to continue as a going concern used for the preparation of the financial statements *(We refer to the note 1.2 in the notes to the Financial Statements)*	
Key Audit Matter	**How our audit addressed the key audit matter**
The group's ability to continue as a going concern is based on the revised orderly resolution plan of the Dexia Group, approved by the European Commission on December 28, 2012. This plan, revised by the Board of Directors of Dexia of November 14, 2017, is based amongst others on the following assumptions: - The business plan is based on observable market data at the end of 2012. - The underlying macro-economic assumptions are reviewed as part of the semi-annual reviews of the orderly resolution plan, which also include a review of the latest observable market data and a review of the latest accounting standards and regulatory developments. - The business plan assumes the preservation of the banking licenses of the different entities and of the credit rating of Dexia Credit Local. - The business plan assumes that the Dexia Group maintains a sound funding capacity, which relies in particular on the appetite of investors for the debt guaranteed by the Belgian, French and Luxembourg States as well as on the Group's capacity to raise secured borrowings. - Finally, Dexia Crédit Local is also sensitive to the evolution of its macro-economic environment and to market parameters, including exchange rates, interest rates and credit spreads, of which fluctuations are likely to impact the business plan. As of today uncertainties, remain about the realization of the business plan supporting the ability to continue as a going concern. Consequently, we consider the ability to continue as a going concern as a key audit matter.	We have examined the latest evaluation made by the Executive Committee and the Board of Directors regarding the going concern principle of Dexia Crédit Local for a period of twelve months starting at the closing date of the exercise, as well as the elements used to justify the evaluation and the underlying documentation: - We have examined the appropriateness of the overall underlying assumptions to the business plan, included in the latest available update at end of June 2017; based on our knowledge of the market, the activities of Dexia Credit Local and the applicable regulation and legislation. - We have assessed the elements on which the liquidity forecasts were estimated (including the realization of the existing assets and liabilities and the foreseen issuance of the different categories of borrowings in compliance with the funding policy of Dexia Crédit Local) based on the underlying related documentation and on inquiries of management. - Finally, we have assessed the compliance with the legal and regulatory requirements of the available information on the going concern assumption presented in the notes to the Financial Statements. We have inquired the Executive Committee and Board of Directors regarding the underlying assumptions to the business plan after the original period of 12 months. As mentioned in note 1.2, as of today, uncertainties exist besides the macro-economic factors, that are amongst other related to: - the conditions to access the Eurosystem financing facilities after 2021; - the renewal mechanism of the States' guarantee; - the future organization structure of the Dexia Crédit Local.

Operational risks linked to the information systems *(We refer to the note 1.1 in the notes to the Financial Statements.)*	
Key Audit Matter	**How our audit addressed the key audit matter**
Dexia Crédit Local is dependent, for its operational activities, on the reliability and security of its information systems. The activity of Dexia Crédit Local is also seen in the specific context of the management of the existing assets portfolios in rundown, in the context of the orderly resolution plan validated by the European Commission on December 28, 2012. With this background and to ensure operational continuity, Dexia Credit Local has outsourced its IT function (development, production and infrastructure) to an external service provider as of November 1st, 2017. In this context, the management of operational risk linked to the performance of the information systems, and to the automated treatment of accounting and finance data is assessed as a key audit matter.	The assessment of the general IT controls used throughout the data-flow chain is a key step in our audit approach. The audit work performed with the assistance of our IT-specialists consisted more specifically of: - understanding the structure of the IT landscape and the processes and controls related to the production of the accounting and financial information; - monitoring of the follow-up by Dexia Crédit Local of the impacts of IT incidents that occurred during the accounting period and the related corrective actions implemented; - assessing (i) the operating effectiveness of general IT controls (access management to the applications and data, management of the IT operations) and (ii) the key automated controls on significant information systems (credit and market applications, accounting, consolidation, automated reconciliation,…); - performing audit specific procedures on manual journal entries: • test the authorization process for processing manual journal entries; • review the supporting documentation justifying the nature and input of manual journal entries. Following the outsourcing of the IT-function, we have assessed the design of the controls implemented by the management in the context of the outsourcing to the external service provider. Finally, we have reviewed the information presented in the notes to the Financial Statements related to the operational risks with relation to the information systems.

Identification and quantification of credit risk *(We refer to the notes 1.2, 2.3, 2.4, 3.5, 5.6 in the notes to the Financial Statements)*	
Key Audit Matter	**How our audit addressed the key audit matter**
Dexia Crédit Local is exposed to credit risk due to the inability of its clients to meet their financial obligations. Once there is an objective evidence of impairment, the risk is translated in the accounts by the recording of impairments on the related assets and by the recording of provisions on the related off-balance sheet commitments. Firstly, Dexia Crédit Local determines specific impairments and provisions based on an estimation of the individual risk of non-recoverability and of the loss given default. In addition, for assets portfolios considered as sensitive, placed on watch list and on which no specific impairment is recognized, or for assets with an identified incurred sectorial risk, a collective impairment is estimated. The collective impairments are determined based on statistical models including professional judgment in the different stages of the calculation, especially for the definition of homogenous assets portfolios and for the determination of the risk parameters used in the impairment models. As at December 31, 2017, the gross outstanding amount of individually impaired financial assets amounts to 661 million euros, the specific impairment amount to 181 million euros and the collective impairment amounts to 168 million euros. The cost of risk of Dexia Crédit Local amount to 67 million euros. We have considered the identification and quantification of the credit risk as a key audit matter considering the substantial amount of impairment and provisions in the Financial Statements, the significant impact of the judgements applied by the management both for the determination of the carrying amounts of the outstanding assets and for the determination of the recorded impairment and provisions.	We have reviewed the adequacy of the control process related to credit risk and tested the operating effectiveness of the key controls implemented by the management. The key controls are related to the identification and monitoring of loans and advances to be impaired and of already impaired or restructured loans, to the compliance with the accounting principles defined by Dexia for the estimation of impairments, to the quality and the traceability of the data, to the calculations and to the data-flow from the management and risk systems to the accounting system. For the performance of our audit work on the impairments and provisions at closing date, we have taken into consideration the materially significant single outstanding exposure and/or the most materially significant assets portfolios subject to professional judgment by Dexia during the determination of the impairments and provisions. The tests include amongst others: - the identification of single files with objective evidence of credit risk (so called "sensitive" files): for a selection of files deemed as sound by the management, we have assessed the level of credit risk; - the estimation of the specific individual impairments: we have assessed, for a sample, the assumptions retained by the management in the estimation of the recorded impairments; - the estimation of collective impairment we have assessed the relevance of methodologies used, more specifically the aggregation of assets with similar exposures, the relevance of the data used, and their correct application in the calculation. We have also examined the information presented in the notes to the Financial Statements on the credit risk.

Valuation of financial instruments *(We refer to the notes 1.2, 2.5, 4.7, and 5.4 in the notes to the Financial Statements)*	
Key Audit Matter	**How our audit addressed the key audit matter**
In conducting its market activities, Dexia holds financial instruments as assets and liabilities recorded at market value. These instruments are recorded at fair market value estimated by valuation models, for which the parameters are either unobservable nor can be corroborated directly with publicly available market data. The market value is determined according to different approaches depending on the nature and complexity of the instrument: use of directly observable quoted prices, valuation models with predominantly observable parameters or valuation models with largely unobservable parameters. The value calculated may be subject to additional value adjustments to take into account certain specific market, liquidity or counterparty risks. The methods used by the Management to value these instruments include therefore a significant part of professional judgment regarding the defined methodologies and the choice of valuation parameters. Financial instruments amount to 302 billion euros recorded in off-balance accounts as at December 31, 2017. Bonds and other fixed-income instruments amount to 26,7 billion euros in the company's assets as at December 31, 2017 Due to the substantial outstanding amounts and the use of professional judgment during the estimation of the market value, we have assessed that the evaluation of the financial instruments is a key audit matter, especially for instrument valuation that require using unobservable parameters.	We have assessed the adequacy of the key controls, defined and implemented by Dexia Crédit Local in the context of the valuation of financial instruments including those relating to: - the assessment of uncertainty risk linked to the use of valuation models: we have verified the existence of a cartography of the models and have assessed the documentation of the quantification of the uncertainty risk related to the use of these models, as well as the documentation of the priority criteria's applied in defining the periodicity of the review of the models; - the independent check of the valuation parameters: we have amongst others analyzed the relevance of the data sources used and we have assessed the hierarchy of these sources; - the estimation of fair value adjustments: we have assessed amongst others the relevance of the methodologies used, conducted an analytical review of the impacts and examined the reconciliation with the accounting data. We have relied on our valuation experts to perform, based on a sample basis: - an analysis of Dexia Crédit Local's own assessment of the uncertainty risk related to the use of valuation models; - an analysis of the relevance of the valuation parameters withheld; - the independent validation of valuation by using our own models. We have assessed the design of the tool used for the calculation and exchange of collaterals on financial derivatives and we have analyzed the main differences in valuations with the counterparties in order to comfort our assessment of the reliability of Dexia Crédit Local's valuation models. Finally, we have examined the information included in the notes to the Financial Statements regarding the fair value hierarchy.

Valuation of participation interests in affiliated companies *(We refer to the notes 1.1, 1.2, 2.7 and 5.7 in the notes to the Financial Statements)*	
Key Audit Matter	**How our audit addressed the key audit matter**
Participation interests in affiliated companies are recorded in the balance sheet for a net book value of 260 million euros. Participation interests are recorded individually at their least acquisition value or value in use, which is correlated to the value in use value specifically for Dexia Crédit Local. The value in use represents how much the company would accept to pay in order to obtain its shares if it had to purchase them considering its ownership objective. It is determined according to a multi-criteria valuation method based on the available elements such as the future cash flows discounting, the total shares, the revalued net assets or reports commonly used to assess the profitability and the realization of each line of securities. When the value in use of shares is worth less than the net book value, an impairment is recorded as the difference between the value in use and the net book value. Considering the materiality of shares in affiliated companies recorded in the balance sheet, the sensitivity of models used to changes of data and assumptions on which estimation are based, we have considered the valuation of participation interests as a key audit matter.	The work performed consisted on: - Assessing, based on a sample, valuation methods, as well as quantitative data used by the management to determine the value in use. - Assessing the performance of the discount rate used; - Testing the accuracy of the calculation method used by the company to determine the value in use.

Documentation and effectiveness of the hedging relationships *(We refer to the notes 1.2 et 4.7 in the notes to the Financial Statements)*	
Key Audit Matter	**How our audit addressed the key audit matter**
In conducting its financing activities, Dexia Crédit Local has decided to cover the risk of change in fair value or change in cash-flows of its assets and liabilities by using hedging derivatives. The designation of a hedging relationship is defined by the French accounting Framework, in particular the following conditions must be met: - the documentation of the characteristics of the hedged item, of the hedging instrument, and of the type of hedging relationship designated; - the justification of the use of hedge accounting by the performance of efficiency quantitative testing supporting the hedging relationship. The outstanding hedging derivatives represent significant amounts 174 110 million euros, therefore we consider the documentation and effectiveness of the hedging relationships as a key audit matter.	We have assessed the design of the internal control system and the governance related to the documentation and the effectiveness testing of the hedging relationships. In our audit work we have focused on: - the documentation of the hedging relationships; - the identification of the hedged portfolios and hedging instruments; - the process to perform the effectiveness tests supporting the hedging relationships designated over time; - the principles of derecognition of hedging relationships. Our work on the outstanding relationships at closing date focused on the following: - the reconciliation of the outstanding amounts per management accounting with the outstanding amounts per financial accounting; - the review of the effectiveness tests and the recording of the related inefficiency; - the analytical review of the variation of ineffectiveness over the year. We have involved our hedge accounting specialists to; based on a sample, review of the methodologies and the documentation of hedging relationships. In addition, we have assessed if the methodology applied by Dexia Crédit Local complies with the French standards on the accounting treatment of hedging relationships when a sale of a hedged instrument occurs. We have also assessed the accounting impacts related to the termination of hedging relationships or allocation of hedging instruments to new relationships. Finally, we have examined the information included in the notes of the Financial Statements relating to the risks arising from the hedging relationships.

Verification of the Management Report and of the Other Documents Provided to shareholders

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

Information provided in the management report and other documents provided to shareholders regarding the financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report, and in the other documents provided to Shareholders with respect to the financial position and the financial statements.

Corporate Governance Statement

We confirm the completeness of information required by Article. 225-37-3 et L. 225-37-4 of French Commercial Code (code de commerce) in the Board of Directors report regarding corporate governance.

Concerning the information given in accordance with the requirements of article L. 225-37-3 of the French Commercial Code (Code de Commerce) relating to remunerations and benefits received by the directors and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from companies controlling your company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

Report on Other Legal and Regulatory Requirements

Statutory auditors' appointment/ designation

The 16th of May 2008 Dexia Credit Local general annual meeting has appointed Deloitte & Associés as Statutory auditor.
The 28th of June 1996 Dexia Crédit Local general annual meeting has appointed Mazars as Statutory auditor.

As at December 31, 2017, Deloitte & Associés achieved its 10th year of auditing Dexia Crédit Local's financial statements. Mazars achieved its 22nd year.

Management responsible of corporate governance regarding the financial statement responsibilities

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Executive Committee is in charge of the financial reporting process and monitoring the effectiveness of the internal control and risk management systems and, where applicable, the internal audit with respect to concerns procedures relating to the preparation and processing of accounting and financial information.

The Board of Directors approved the financial statements.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Objectives and Audit Approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code, our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of your Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:
• Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those

risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

• Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements.

• Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.

• Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report that outlines the scope of the audit work as well as the work program implemented, and conclusions arising from the work performed. We also disclose, when appropriate, the significant weaknesses of internal control that we have identified with respect to the procedures relating to the preparation and processing of accounting and financial information.

We describe risks of material misstatement that we consider the most significant to the financial statements audit for the year ended December 31, 2017 and which therefore represents a key audit matter in the executive committee report

We also provide to the executive Committee the declaration provided by Article 6 of Regulation (EU) No 537-2014 confirming our independence, according to the French standards as determined by Articles L. 822-10 to L. 822-14 of the French Commercial Code as well as ethics. When appropriate, we discuss with the audit committee risks related to our independence.

Neuilly-sur-Seine and Courbevoie, March 29, 2018

French original signed by the statutory auditors

DELOITTE & ASSOCIÉS

Pascal COLIN   Jean-Vincent COUSTEL

MAZARS

Claire GUEYDAN

General information

Legal and administrative information

1. Regarding the company

Company history	Dexia Crédit Local was one of the three principal entities of the Dexia Group, the Franco-Belgian financial group created in 1996 through the merger of Crédit Local de France and Crédit Communal de Belgique, two credit institutions specialised in the financing of local gov-ernments and participants in local economies. Dexia Crédit Local, set against the major restruc-turing of the Group and the implementation of the Group's orderly resolution plan, is the main subsidiary of the Dexia Group.
Corporate name **Trade name**	As specified in its by-laws, the Company's corporate name is Dexia Crédit Local. The Company uses the trade name Dexia.
Country of origin **Incorporation date and term**	The country of origin of the Company is France. It was incorporated in Paris on 28 August 1989 for a term of 99 years
Registration number	The Company is registered with the Clerk of the Commercial Court of Nanterre under no. 351 804 042, and its APE business identifier code is 6492Z.
Registered office	Since 1 March 2007, the Company's registered office and principal place of business has been located at: Tour CBX La Défense 2 - 1, Passerelle des Reflets, 92913 La Défense, France (tel: +33 1 58 58 77 77).
Legal form **Applicable legislation**	Dexia Crédit Local is a French limited company (société anonyme) with a Board of Directors, as governed by Articles L.225- 17 et seq. of the French Commercial Code and Article L.511-1 of the French Monetary and Financial Code.
Business purpose	The purposes for which the Company is established are: • to conduct in France and abroad any and all credit operations promoting local development, including notably public services and facilities, mainly for the benefit of local governments and public-sector corporations, local government-backed agencies, local semi-public companies, concessionary public service companies and, more generally, agencies carrying out development and housing schemes, or which have entered into an agreement with a local government for the construction or management of local public facilities; • to carry out, for the benefit of the above parties, insurance brokerage activities and any advisory and assistance work in matters of financial management, financial engineering and, more generally, to offer any and all services to facilitate their financial management subject to the legisla-tive provisions relating to the exercise of certain regulated professions; • to receive cash deposits from local governments and local public entities in accordance with the regulations applicable to such bodies; • to hold the funds lent to customers, pending their use; and • to issue debt securities in France and abroad in order to fund the Company's lending opera-tions. • For this purpose, the Company may: • create subsidiaries; • hold shares in companies whose activities are likely to facilitate the achievement of the Com-pany's business purpose; • create and manage guarantee funds to ensure repayment of loans made to the agencies mentioned in the first paragraph of this section. The Company may also carry out any and all transactions falling within the scope of its business purpose on behalf of agencies and institutions set up to serve the public interest.
Fiscal year	The Company's fiscal year begins 1 January and ends 31 December

Appropriation of net income	Net income for the year, less any prior-year losses and the appropriations provided for in Article 37 of the by-laws (5% for the legal reserve prescribed by law) plus any retained earnings, is available for distribution to shareholders. The shareholders' meeting determines the fraction of income available for distribution to be paid out to shareholders in the form of dividends, based on the recommendations of the Board of Directors. The balance of income available for distribution, if any, is allocated either to re-tained earnings or to one or more reserves, by resolution of the Shareholders' Meeting, which also approves the use to be made of said reserves. The shareholders' meeting may also resolve to pay dividends out of distributable reserves; in this case, the related resolution must clearly indicate from which reserves the dividends are to be taken. Insofar as possible, dividends are, however, taken first from distributable income for the period. The terms and conditions for payment of dividends are set by the share-holders' meeting or, failing that, by the Board of Directors, but dividends must be paid within nine months of the fiscal year-end, unless this period is extended by order of the President of the French Com-mer-cial Court ruling on an application by the Board of Directors. Notwithstanding the foregoing, and in the cases provided for by applicable legislation, the Board of Directors is authorised to pay interim dividends to be deducted from the total divi-dends for the year just ended or the current year, prior to the approval of the related financial statements. The amounts and payment dates of such interim dividends will be decided by the Board of Directors. When the final dividend is set, the shareholders' meeting will be responsible for verifying that the provisions of the above-mentioned paragraph have been fully complied with in respect of the total dividend (including any interim dividend).
Shareholders' meetings	**Notice of shareholders' meetings** Shareholders' meetings are called in accordance with applicable regulations. They are con-duct-ed at the Company's registered office or any other location mentioned in the meeting notice. All shareholders are entitled to obtain copies of the documents they need to be able to make informed decisions and to make a reasoned assessment of the management and control of the Company. The types of documents concerned and the rules governing their transmission to or consulta-tion by shareholders are prescribed by law and all applicable regulations. **Right to attend shareholders' meetings** All shareholders are entitled to attend shareholders' meetings upon presentation of proof of identity, provided that their shares are fully paid-up. Shareholders may choose to be represented by another shareholder. Proxies should be filed at the registered office at least five days before the shareholders' meeting. **Voting rights** Shares carry voting rights based on the proportion of capital represented. Each share entitles the owner to one vote. Each person present at the shareholders' meeting is entitled to exercise one vote for each share held and for each share for which he or she holds a proxy
Place where Company's legal documents may be viewed **Responsibility for information**	All documents and information concerning the Company may be consulted at its registered office. Please address any requests to: Wouter Devriendt, Chief Executive Officer Véronique Hugues, Executive Vice-President (+33 1 58 58 69 39).

2. Outlook[1]

Recent events	Despite the significant progress made by the Dexia Group since the end of 2008 with a view to reducing the severe financial imbalances which had weakened it at the time, 2011 represented a very difficult turning point for the Group due to a further deterioration in the markets. The acceleration of the sovereign debt crisis in the eurozone had called into question the underlying assumptions and the effective completion of the initial transformation plan mapped out in 2008. To take this deteriorated environment into consideration, in October 2011 the Dexia Group announced and implemented an orderly resolution plan for its activities in order to avoid a rapid deterioration in its liquidity position and the materialisation of a systemic risk for the Belgian and French States, as well as the entire European banking sector. This orderly resolution plan, under which the Group's assets are to be managed on a run-off basis, is based essentially on two aspects: the disposal of Dexia's main operating entities and the provision of a funding guarantee by the Belgian, French and Luxembourg States. 2012 was primarily marked by the implementation of the various sections of this plan and its consequences in terms of the change of scope, purpose and governance for the Dexia Group. The Dexia Group's revised resolution plan was approved by the European Commission on 28 Decem-ber 2012. This marked a decisive step forward for the implementation of this plan, with this validation paving the way for the EUR 5.5 billion capital increase by Dexia SA and the scheme set up for a tripartite liquidity guarantee of EUR 85 billion by the Belgian, French and Luxembourg States, allowing Dexia Crédit Local to refinance itself on the capital markets and to manage its orderly resolution over the long term. After the considerable efforts made to dispose of its main commercial franchises and to restore the diversity of its funding sources, in 2017 the Dexia Crédit Local group continued to simplify its structure. Indeed, in May 2017 Dexia Crédit Local signed an agreement with Cognizant to outsource its IT and back office activities in France. Furthermore, in 2017, Dexia took advantage of a favourable macroeconomic environment to accelerate the reduction of its asset portfolios, reducing their risk and complexity.
Trends	Subject to the risks and contingencies identified in the present Reference Document, the Dexia Group and Dexia Crédit Local in particular will be moving forward with the implementation of the principles set out in the Group's revised orderly resolution plan, as approved by the European Commission on 28 December 2012. Dexia Crédit Local no longer has any commercial activities in it previous markets, including the public sector financing. After having sold the main part of its commercial franchises, the Group will focus now on the run-off management of outstanding loans, using the guarantee mechanism from the above-mentioned States, and the desensitising of sensitive structured loans
Control	To the best of the Company's knowledge, no agreement exists – including under the terms of the restructuring plan in effect – whose implementation could, at a later date, bring about a change in its control.
Legal and arbitration proceedings	Readers are invited to refer to the text presented on pages 25 to 27 of this report concerning litigations
Material changes	Since the last fiscal year for which audited financial statements have been published, the Dexia Group continued the implementation of its orderly resolution plan. In this context, it proceeded with the sale of some of its commercial franchises.
Major contracts	The Company currently has no material contracts (other than those entered into as part of the normal course of its business) that may give any member of the Group a right or obligation with a material im-pact on its ability to fulfil its obligations to holders of issued securities.

(1) The forward-looking elements presented in this section must not be interpreted as guarantees that the forward-looking information will prove accurate or that the desired results will be achieved. The forward-looking statements include a certain number of risks, which may or may not be known or established, but remain subject to contingencies, notably resulting from changes in the macroeconomic environment within which the Dexia Group operates. If they were to materialise, these risks could result in the Group's future development, performance and results being different from the objectives suggested and set out

Declaration of the person responsible for the registration document *(document de référence)*

The person responsible for the Dexia Crédit Local registration document *(document de référence)* is:

Wouter Devriendt, Chief Executive Officer of Dexia Crédit Local.

Declaration of the person responsible for the registration document *(document de référence)*

I the undersigned, Wouter Devriendt, Chief Executive Officer of Dexia Crédit Local,

Hereby declare, after having taken all reasonable measures to this end, that, to the best of my knowledge, the information contained in this registra-tion document is accurate and contains no omission that would alter its meaning.

Hereby declare, to the best of my knowledge, that the financial statements have been prepared in accordance with all applicable accounting stand-ards and present a true and fair view of the assets, financial position and results of the Company and of all the companies included in the scope of consolida-tion, and that the management report on page 2 of this document presents a true and fair view of changes in the revenues, results and financial position of the Company and of all the companies included in the scope of consolidation and a description of the main risks and uncertain-ties to which they are exposed.

I have obtained an audit opinion from the Statutory Auditors in which they state that they have verified the information concerning the financial position and the accounts provided in this document and have reviewed the entire document.

The historical financial data presented in this document have been discussed in reports by the Statutory Auditors on pages 143 and 182 of this registra-tion document, as well as those included by reference for fiscal years 2015 and 2016, respectively on pages 160 and 198 of the 2015 registration docu-ment and pages 149 and 188 of the 2016 registration document.

The Statutory Auditors' reports on the parent company and consolidated financial statements for 2015 and 2016 contain some remarks.

For the 2017 financial year, the Statutory Auditors expressed an opinion on the annual and consolidated financial statements without reservation or observation and brought to the attention of the shareholders the key points of the audit relating to the risks of material anomalies which, in their profes-sional judgement, were the most important for the audit of the annual and consolidated financial statements for the financial year, as well as the re-sponses given with regard to those risks.

La Défense, 25 April 2018

Wouter Devriendt
Chief Executive Officer

Cross-reference table

Headings in the schedule in note XI of article 14 of Commission regulation (EC) n° 809/2004

		Pages
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11.2	Financial reports	
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11.3.3	Financial data in the registration document not taken from the audited financial statements	NA
11.4	Date of the most recent financial information	
11.4.1	Last fiscal year for which the financial data were audited	2017
11.5	Interim financial data	
11.5.1	Quarterly and six-month data Audit of interim financial data	NA NA
11.6	Legal and arbitration proceedings	25 to 27 / 192
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14.	Documents available to the public	
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** In accordance with Article 28 of Commission Regulation (EC) no. 809-2004, for reference purposes we have included the financial data for the year ended 31 December 2015, and the Statutory Auditors' reports on the consolidated and annual financial statements for that period, presented respectively on pages 160 and 198 of the 2015 registration document (filed on 28 April 2016 with the French Financial Markets Authority under D.16-0430).*

***In accordance with Article 28 of Commission Regulation (EC) no. 809-2004, for reference purposes we have included the financial data for the year ended 31 December 2016, and the Statutory Auditors' reports on the consolidated and annual financial statements for that period, presented respectively on pages 149 and 188 of the 2016 registration document (filed on 27 April 2017 with the French Financial Markets Authority under D.17-0448).*

Dexia Crédit Local's registration document 2017 has been published by the Communication Department.
This report is also available in French.
In case of discrepancy between the English and the French versions of the registration document,
the text of the French version shall prevail.
Due to environmental concern, Dexia Crédit Local decided not to print its annual report.
It can be downloaded on www.dexia-creditlocal.fr

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