H1 2017

FINANCIAL REPORT

DEXIA
CRÉDIT
LOCAL
DCL

CONTENTS

MANAGEMENT REPORT[1]

FINANCIAL HIGHLIGHTS

CONSOLIDATED STATEMENT OF INCOME – ANC FORMAT		
in millions of EUR	H1 2016[1]	H1 2017
Net banking income	41	113
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-222	-242
Gross operating income	-181	-129
Cost of risk	-6	-5
Net gains or losses on other assets	6	0
Pre-tax income	-181	-134
Income tax	-34	-49
Net income	-215	-183
Minority interests	-12	4
Net income Group share	-203	-187

(1) Pro forma.

BALANCE SHEET KEY FIGURES – ANC FORMAT			
in millions of EUR	30/06/2016	31/12/2016	30/06/2017
Total assets	235,028	212,026	198,753
of which			
Cash and central banks	3,296	4,222	10,362
Financial assets at fair value through profit or loss	22,202	17,780	15,316
Hedging derivatives	7,710	6,830	5,396
Financial assets available for sale	20,447	16,548	13,434
Customer loans and advances	127,823	118,882	109,551
Accruals and other assets	43,389	36,880	34,309
Total liabilities	232,805	208,658	194,795
of which			
Central banks	7,350	690	90
Financial liabilities at fair value through profit or loss	23,705	18,675	15,931
Hedging derivatives	39,764	33,796	29,674
Interbank borrowings and deposits	46,851	40,850	38,936
Debt securities	97,573	98,524	94,795
Total equity	2,223	3,368	3,958
of which			
Equity, Group share	1,874	2,997	3,565

(1) The management report data are unaudited.

INTRODUCTION

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

These elements are reflected in various ways in the Dexia Crédit Local results, as they impact the funding requirement, the size of the Group's balance sheet and the level of solvency ratios.

1. SIGNIFICANT EVENTS AND TRANSACTIONS

A. Dynamic balance sheet and credit risk management

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

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

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

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

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

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

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

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

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

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

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

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

Considering the substantial change of Dexia's funding profile since the end of 2012 and the diversification of its funding sources, this decision of the European Central Bank does not affect Dexia's resolution trajectory. Dexia will nonetheless include this element in the definition of the framework which will enable it to continue its resolution after 2021, when the current orderly resolution plan[1] is scheduled to end.

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

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

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

D. Signature of a letter of intent with Cognizant in relation to the planned outsourcing of Dexia Crédit Local's IT and back office services

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

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

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

(1) Cf. Decision of the European Commission dated 28 December 2012 approving the Dexia orderly resolution plan.

2. RESULTS H1 2017

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

Going concern

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

- The business plan was constructed from market data available at the end of September 2012; the underlying macroeconomic assumptions are reviewed as part of the half-yearly reviews of the overall plan.
  In particular, the updates made on the basis of market data observable as at 31 December 2016 and validated by the Board of Directors of Dexia on 30 August 2017 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments to date, such as the final version of the CRD IV Directive and implementation of the IFRS 9 accounting standard from 1 January 2018, based on the assumptions known to date.
  The business plan thus revised leads to adjustments in relation to the original plan. These result in a significant change to the trajectory of the Group's resolution as initially anticipated, in particular in terms of profitability, solvency and funding structure, but at this stage they do not raise questions as to the nature and the fundamentals of the resolution.
- The business plan assumes the maintenance of the banking licences of the various entities and the rating of Dexia Crédit Local.
- It moreover assumes that Dexia 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 sharply reduce its reliance on central bank funding to EUR 90 million as at 30 June 2017. On 21 July 2017[1] the European Central Bank announced the end of access to the Eurosystem for wind-down entities as from 31 December 2021. Considering the substantial reduction of Dexia 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, with its prudent liquidity management, Dexia Crédit Local has also established liquidity reserves. They amounted to EUR 21.2 billion as at 30 June 2017.

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

- It is in particular exposed to the evolution of accounting and prudential rules.
- The financial characteristics of Dexia 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.

Notes in relation to accounting and regulatory developments

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

(1) Cf. Dexia press release dated 21 July 2017, available at *www.dexia.com*.
(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.

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

B. Dexia Crédit Local Group consolidated results for H1 2017

Over the first half-year 2017, the Dexia Crédit Local Group booked net income Group share of EUR -187 million.

Over that period, net banking income was EUR 113 million, consisting of:

- An interest margin, corresponding to the asset carrying cost and the transformation result, in an amount of EUR 146 million. The reduction of income, as a result of attrition of the asset portfolio, was offset by the fall in funding costs over the period. This is explained by three factors: the reduction of the volume of funding raised, optimisation of the funding mix in favour of market funding, which is less costly than central bank funding and deposit collection, and an improvement of market conditions reflected in the cost of funding raised;
- Net commissions were EUR -7 million;
- Net gains or losses on financial instruments at fair value by result, amounting to EUR -119 million. This result is explained by the negative evolution of the valuation of derivatives on the basis of an OIS curve, under market conditions which were unfavourable for the Group. This impact was partially offset by the favourable evolution of the CVA. In addition, the impact of the breakdown of relations in the hedging of Group positions on enterprises associated with the Commonwealth of Puerto Rico, from the viewpoint of their disposal, amounted to EUR -52 million;
- Net gains or losses on financial assets available for sale, in an amount of EUR 77 million, were mainly attributable to gains on asset disposals.

Operating costs amounted to EUR -235 million. Of that amount, EUR -84 million corresponds to the booking of bank levies and regulatory contributions. Excluding these elements, operating costs remain under control.

The cost of risk was very slightly negative, at EUR -5 million. It includes the impact of the strengthening of provisions on positions associated with the Commonwealth of Puerto Rico, in an amount of EUR -89 million. This amount is partially offset by the reversal of provisions on positions disposed of and collective provisions.

Income before tax was EUR -134 million.

Over the half-year, the tax charge was EUR -49 million.

Income attributable to minority interests was EUR 5 million, leading to net income Group share of EUR -187 million over the half-year.

3. EVOLUTION OF THE BALANCE SHEET, SOLVENCY AND LIQUIDITY SITUATION OF THE GROUP

A. Balance sheet and solvency

Half-yearly balance sheet evolution

As at 30 June 2017, the Group's consolidated balance sheet total was EUR 198.8 billion, down EUR -13.3 billion on 31 December 2016.

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

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

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

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

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

Solvency ratios

As at 30 June 2017, Dexia Crédit Local's Common Equity Tier 1 capital was EUR 5,058 million, against EUR 5,676 million as at 31 December 2016. This fall is principally explained by the loss booked over the period and the 80% deduction of the AFS reserve in 2017, as compared with 60% in 2016, in line with the schedules defined by the CRD IV directive. The amount deducted from regulatory capital for the AFS reserve was EUR -2.8 billion as at 30 June 2017, whilst that amount was EUR -2.5 billion as at 31 December 2016. This evolution was partially offset by a tightening of credit spreads and by an appreciation of the euro, as well as the sale of heavily weighted assets or holdings directly deducted from capital.

Gains and losses recognised directly in equity stood at EUR -4.4 billion as at 30 June 2017, a strong improvement of EUR +0.9 billion compared to end 2016, in particular as a result of the tightening of credit spreads on Italian and Portuguese sovereigns.

As at 30 June 2017, risk-weighted assets were at EUR 36.5 billion, of which EUR 34.2 billion for credit risk, EUR 1.3 billion for market risk and EUR 1 billion for operational risk. To recall, at the end of 2016, they were at EUR 43.2 billion, of which EUR 40.8 billion for credit risk, EUR 1.4 billion for market risk and EUR 1 billion for operational risk. At a credit risk level, the sharp fall of EUR -6.7 billion was for the most part a result of the natural reduction of the asset portfolio, of Group disposals, of a favourable exchange effect and of a reduction of the fair value of exposures.

Considering these elements, Dexia Crédit Local's Common Equity Tier 1 ratio was at 13.9% as at 30 June 2017, against 13.1% at the end of 2016. The Total Capital ratio was 14.7%, 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).

B. Evolution of the Dexia Crédit Local Group's liquidity situation

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

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

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

CAPITAL ADEQUACY

in millions of EUR	30/06/2016	31/12/2016	30/06/2017
Common Equity Tier 1	5,963	5,676	5,058
Total capital	5,963	5,802	5,357
Risk weighted assets	49,636	43,206	36,497
Common equity Tier 1 ratio	12.0%	13.1%	13.9%
Total capital ratio	12.0%	13.4%	14.7%

RISK-WEIGHTED ASSETS

in millions of EUR	30/06/2016	31/12/2016	30/06/2017
Credit risk	46,479	40,839	34,186
Market risk	2,157	1,367	1,311
Operational risk	1,000	1,000	1,000
Total	**49,636**	**43,206**	**36,497**

end of June 2017, the total funding raised by the Group was EUR 139.6 billion, against EUR 146.5 billion at the end of December 2016.

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

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

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

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

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

CREDIT RISK

Dexia Crédit Local credit risk exposure is expressed as Exposure at Default (EAD). It corresponds to the best estimate of exposure to credit risk 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 of Dexia Crédit Local's registration document 2016.

As at 30 June 2017, Dexia Crédit Local's exposure to credit risk amounted to EUR 156.3 billion, compared to EUR 163.9 billion at the end of December 2016. The fall associated with natural portfolio amortisation and asset disposals was accentuated by a favourable exchange effect as well an increase in the fair value of assets, in view of the tightening of credit spreads.

Exposures were divided EUR 78 billion in loans and EUR 66 billion in bonds.

Exposures are for the most part concentrated in the European Union (72%) and the United States (17%).

GROUP EXPOSURE BY GEOGRAPHIC REGION

in millions of EUR	30/06/2016	31/12/2016	30/06/2017
France	25,008	25,413	26,394
United States	26,843	23,825	24,483
Italy	27,394	25,512	24,227
United Kingdom	26,900	25,447	23,583
Germany	22,672	20,689	19,003
Spain	15,770	14,073	12,393
Japan	8,778	7,470	7,042
Portugal	4,055	3,868	3,838
Canada	2,863	2,654	2,426
Belgium	2,111	2,009	1,761
Scandinavian countries	1,280	1,229	1,256
Central and Eastern Europe	2,429	1,843	1,084
Austria	1,559	1,118	1,065
Southeast Asia	892	607	475
South and Central America	509	490	472
Switzerland	592	399	379
Turkey	443	367	295
Greece	143	128	81
Netherlands	286	155	70
Luxembourg	104	61	58
Hungary	687	275	49
Ireland	101	103	10
Others	6,961	6,187	5,873
Total	**178,379**	**163,923**	**156,318**

As at 30 June 2017, exposures remained predominantly concentrated on the local public sector and sovereigns (72%), considering Dexia Crédit Local's historic activity. The sovereign portfolio posted a rise of 18% in view of the increase of deposits with the Federal Reserve (FED) and the Bank of France. Furthermore, exposure to financial institutions amounted to EUR 17.5 billion, principally consisting of "repos" and real estate bonds.

GROUP EXPOSURE BY TYPE OF COUNTERPARTY

in millions of EUR	30/06/2016	31/12/2016	30/06/2017
Local public sector	95,992	89,275	82,749
Central governments	26,961	25,461	29,974
Financial institutions	24,109	19,798	17,509
Project finance	14,305	13,355	12,192
ABS/MBS	7,153	6,403	5,122
Corporate	8,128	7,590	6,961
Monolines	1,733	2,040	1,810
Individuals, SME and self-employed	0	0	0
Total	**178,379**	**163,923**	**156,318**

The average quality of the Dexia Crédit Local portfolio remained high, with 91% of exposures rated investment grade as at 30 June 2017.

GROUP EXPOSURE BY RATING (INTERNAL RATING SYSTEM)

	30/06/2016	31/12/2016	30/06/2017
AAA	16.9%	18.2%	21.3%
AA	20.4%	17.9%	14.2%
A	23.7%	24.1%	25.8%
BBB	28.4%	29.4%	29.4%
Non investment grade	9.3%	9.2%	8.2%
D	1.1%	0.9%	0.7%
Not rated	0.2%	0.3%	0.3%
Total	**100%**	**100%**	**100%**

GROUP SECTOR EXPOSURE TO CERTAIN COUNTRIES							
in millions of EUR	Total	o/w local public sector	o/w corporate and project finance	o/w financial institutions	o/w ABS/MBS	o/w sovereign exposures	o/w monolines
USA	24,483	11,368	738	2,827	3,203	4,903	1,443
Italy(1)	24,227	9,955	868	785	31	12,587	0
France	26,394	14,521	3,156	2,878	0	5,839	0
United Kingdom	23,583	11,147	8,824	1,662	1,521	61	367
Germany	19,003	16,048	193	2,511	0	251	0
Spain	12,393	6,261	1,882	3,476	284	490	0
Japan	7,042	5,231	0	1,003	0	808	0
Portugal	3,838	1,771	94	15	45	1,914	0
Poland	499	1	0	1	0	497	0
Hungary	49	2	0	0	0	47	0
Turkey	295	3	3	290	0	0	0
Ireland	10	0	8	2	0	0	0
Greece	81	3	77	0	0	0	0

(1) The exposure to Italian financial institutions, in an amount of EUR 785 million, includes the exposure to Italian banks (EUR 159 million). The remainder, in an amount of EUR 626 million, relates to clearing houses.

Particular attention is paid to the countries listed in the table above, in view of the significant amounts of exposure or a situation representing a potential risk. The principal evolutions and significant facts for those sectors and countries in the first half-year 2017 are noted in the following paragraphs.

Dexia Crédit Local Group commitments on sovereigns

Dexia Crédit Local outstanding on sovereigns is concentrated essentially on Italy and to a lesser extent on France, the United States, Portugal and Japan.

The financial situation of European countries and the United States continued to improve, driven by a favourable economic and political situation in the first half-year 2017. Indeed, interest rate spreads between the main European economies tightened following the elections in France, monitored closely by investors. In addition, euro zone growth firmed up to a level comparable with that in the United States. This favourable wind could lead the European Central Bank to review its policy. However, divergences remain between European countries; Italy is facing a restructuring of its banking system and persisting political uncertainty slowing the implementation of reforms.

In the United States, the accommodating fiscal policy promised by the recently elected President is struggling to take shape. Whilst growth, inflation and the unemployment rate are closing on the desired levels, the FED should continue gradually to raise its key rate. The latter recently unveiled its targets for the resale of assets acquired during the period of monetary easing.

In Japan, the monetary actions commenced by the Prime Minister continue despite political pressures aimed at reducing asset purchases. The figures for HI indicate that the economy seems to be growing on a sustainable basis.

Dexia Crédit Local Group commitments on 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 Western Europe (France, Italy, Germany, Spain, the United Kingdom) and in North America.

The years 2008-2014, marked by the economic crisis, led to a deterioration of the financial situation of certain local authorities, particularly in Spain and Portugal, and to a tightening of the room for manoeuvre in the majority of countries. The most weakened countries introduced drastic measures to control any recourse to borrowing and expenditure growth through stability pacts, and provided financial support via assistance funds (clearing supplier debts, loans at favourable rates and so on). 2015 was a year of stabilisation, which was confirmed in 2016: although there are still some difficult cases, tensions have relaxed. In France, savings have ceased to contract, by virtue of real efforts to control costs, despite the fall of endowments paid by the State. After two years of falls, investment is recovering. In Spain, despite budget indicators still pointing to tensions, the regions have been able to honour their commitments both to their suppliers and to their banks, by virtue of State support. In Italy, efforts made by the health sector, the Achilles heel of Campania and Latium in particular, are bearing fruit.

Main points of attention

- Catalonia and Valencia

  These two major Spanish regions are important centres of economic attraction but their situation remains tense. They present identical characteristics: negative savings, heavy indebtedness, tight liquidity leading to dependence on short-term funding. As a consequence they benefit from support confirmed by the State. The Dexia Crédit Local Group's exposure to Catalonia and Valencia amounted to EUR 1.7 billion and EUR 0.659 billion respectively. To date, the Group has not recorded any payment incident.

- Puerto-Rico

  The situation of the Commonwealth still requires to be carefully monitored.

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

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

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

- Chicago Board of Education (CBOE)

  The CBOE encountered financial difficulties as a result of extremely high levels of debt, the under-funding of its pension funds and the ongoing fall of student registrations. These difficulties were compounded by the delay on the part of the State of Illinois in paying subsidies to the CBOE. As a consequence, the latter increased its portion of short-term funding, for which access conditions hardened.

  The Dexia Crédit Local Group's exposure to the CBOE was EUR 447 million as at 30 June 2017. Approximately 14% of the exposure benefits from enhancement by Ambac. Furthermore, a collective provision, in an amount of EUR 37 million, was made to cover the risk of loss. Despite its weak financial situation, the CBOE continues to honour its commitments and has pre-financed the service of its financial debt until March 2018.

Dexia Crédit Local Group commitments on project finance and corporates

The project finance and corporate loans portfolio amounted to EUR 19.2 billion as at 30 June 2017, down 9% on the end of 2016, principally as a result of natural portfolio amortisation and early redemptions. This portfolio consists 64% of project finance, the balance being in finance to large corporates, such as financing for acquisitions, commercial transactions or corporate bonds

As at 30 June 2017, the project finance portfolio amounted to EUR 12.2 billion. 70% of the portfolio is located in Western Europe, 21% in the United States, Canada and Australia. The portfolio is rated 74% investment grade.

Certain projects are monitored very carefully. In particular, changes to the Spanish regulatory framework concerning renewable energies adopted on 16 June 2014, providing for the revision of tariffs for the purchase of electricity, had an unfavourable impact on a part of the portfolio of renewables projects in Spain, mainly photovoltaic projects. Management of the consequences of those regulatory changes continues. Several projects have already been restructured and negotiations are in progress on others.

The corporate loans portfolio amounted to approximately EUR 7 billion at the end of June 2017. 92% of the portfolio is located in Western Europe, 5% in the United States, Canada and Australia. 95% of the portfolio is rated investment grade.

Dexia Crédit Local Group's direct exposure to the oil sector, weakened by the fall of prices, amounted to EUR 206 million. It mainly involves project finance, the resilience of which in the case of a price fall is deemed satisfactory, and more marginally first-class corporates. Some individual files have been provisioned.

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

Dexia Crédit Local Group's exposure to Qatar corresponds to 9 instances of project finance, with an exposure of EUR 309 million. They relate either to desalination / electricity production plants or LNG production / transport. All these projects are of very good quality and to date do not appear to be impacted by the diplomatic crisis involving Qatar and its neighbours.

Dexia Crédit Local Group commitments on ABS

As at 30 June 2017, Dexia Crédit Local's ABS portfolio amounted to EUR 5.1 billion, down EUR 1.2 billion on the end of 2016 as a result, on the one hand, of the redemption of certain positions and, on the other hand, the disposal of certain assets (in an amount of EUR 703 million). These disposals are concentrated in the US government student loans portfolio.

Overall, the major proportion of the portfolio consists of American student loans (EUR 3.1 billion), which present a rather long amortisation profile and good credit quality, benefiting from a US State guarantee. The balance is principally in residential mortgage backed securities (RMBS), representing an amount of EUR 0.346 billion, of which EUR 0.243 billion in Spain.

The quality of the ABS portfolio remained stable overall, with 97.5% of the portfolio rated investment grade at the end of June 2017, almost all of the tranches in which Dexia Crédit Local invested being senior level.

Dexia Crédit Local Group commitments on monolines

Dexia Crédit Local has indirect exposure to the signature quality of monolines through insurance contracts entered into to cover the timely conclusion of certain types of bonds issued in the form of securities or loans. Through their insurance policy, these monolines undertake irrevocably and unconditionally to reimburse the principal and interest payable on loans in the event of the failure of the underlying counterparty.

As at 30 June 2017, Dexia Crédit Local's portfolio included EUR 16.7 billion of assets insured by monolines, of which, 74% was attributable to insurers rated investment grade by one or more rating agencies.

Dexia Crédit Local Group commitments on financial institutions

Dexia Crédit Local commitments on financial institutions amounted to EUR 17.5 billion as at 30 June 2017, posting a slight fall of EUR 2.3 billion since December 2016.

The commitments consist of 76% bonds, covered bonds and repo operations with financial institutions. The balance consists of exposures associated with loans to financial institutions and derivatives.

Dexia Crédit Local exposures are concentrated 16% in the United States and 73% in Europe, principally in Spain (20%), France (16%), Germany (14%) and the United Kingdom (9%).

The portfolio's credit quality remained stable overall in H1 2017.

The evolution of the Deutsche Bank group was carefully monitored. Its situation stabilised in the spring by virtue of a recapitalisation of EUR 8 billion. Dexia Crédit Local's exposure to this group amounted to EUR 1.2 billion as at 30 June 2017.

Moreover, the period was marked by turbulence in the Italian banking sector. As the Dexia Crédit Local Group remains heavily exposed to Italian sovereigns, it is sensitive to any scenario of contagion affecting banks and the public sector. The Group's exposure to Italian banks amounted to EUR 159 million. It relates for the most part to banks presenting good credit quality. The exposure to banks rated non-investment grade was less than EUR 0.3 million and consists of collateralised derivatives.

Impairments on counterparty risk – Asset quality

H1 2017 was marked by an increase of the stock of impaired assets (EUR +155 million), which amounted to EUR 1,217 million as at 30 June 2017, as well as an EUR +7 million increase of impairments allocated, amounting to EUR 326 million. This is explained in particular:

- By the impairment of the portfolio of corporates associated with Puerto Rico (cf. section "Dexia Crédit Local Group commitments on the local public sector ");
- By the default, followed by the impairment, of an ABS and an energy file in Spain.

ASSET QUALITY			
in millions of EUR	30/06/2016	31/12/2016	30/06/2017
Impaired assets	1,542	1,062	1,217
Specific impairments[4]	538	319	326
Coverage ratio[5]	34.9%	30.1%	26.8%
Collective provisions	419	413	359

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

This was offset by reversals of impairments associated with:

- The disposal of exposures to Spanish motorways and to a Greek local authority;
- The restructuring of a wind farm project in Australia and an infrastructure project in Spain;
- The natural amortisation of certain impaired files.

As a consequence, the coverage ratio was 26.8% as at 30 June 2017.

In addition to specific impairments, Dexia has collective (statistical or sector) provisions, which were down over the half-year at EUR 359 million as at 30 June 2017. This reduction was principally associated with:

- The disposal of ABS positions;
- The updating of calculation parameters;
- Favourable movements of the impairment scope (upgrade of counterparties);
- Natural amortisation of assets over the period;
- The favourable evolution of exchange rates.

MARKET RISK

Value at Risk (VaR)

At the end of June 2017, total consumption in VaR amounted to EUR 6.3 million, against EUR 8.7 million at the end of 2016.

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. The sensitivity to credit spreads is extremely limited, as interest rate risk is hedged. For portfolios of bonds classified as available for sale, the sensitivity of fair value (and of the AFS reserve) to an increased credit spread by one basis point was EUR -12 million as at 30 June 2017.

TRANSFORMATION RISK

Dexia Crédit Local's asset and liability management (ALM) policy 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

The sensitivity of long-term ALM was EUR +8.6 million as at 30 June 2017 for the entire Dexia Crédit Local Group, 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 millions of EUR	30/06/17
Sensitivity	+8.6
Limit	±80

Management of liquidity risk

Dexia Crédit Local measures and communicates the Liquidity Coverage Ratio (LCR) at a Group level and its main banking subsidiaries on a monthly basis to its various regulators. This ratio seeks to measure the coverage of liquidity requirements at 30 days in an environment stressed by a volume of liquid assets. As at 30 June 2017, the Dexia Crédit Local Group's LCR was 105%.

OPERATIONAL RISK AND IT SYSTEMS SECURITY

The company project identifies operational risk management as one of the pillars of Dexia Crédit Local strategy, within the context of its orderly resolution.

The operational risk management mechanism relies on the standard approach provided by the Basel regulatory framework.

Five operational incidents, involving a total loss of EUR 3,900, were registered in the first half-year 2017.

In 2017, the Dexia Crédit Local Group is continuing with the adaptation of its structure and its operational processes to its orderly resolution mandate. This phase of resolution is by its nature propitious to the development of operational risks, particularly through elements such as the departure of key staff, a possible de-motivation of staff members or the modification of treatment processes. In particular, plans to outsource certain activities could represent a source of operational risk during this phase of preparation and implementation but should in the medium term enable the bank's operational continuity to be protected and the operational risks associated with systems, processes and people to be limited.

Furthermore, psycho-social risks are carefully monitored by Dexia Crédit Local, with the implementation of prevention and assistance actions.

STRESS TESTS

Dexia Crédit Local performs stress tests adopting a transversal and integrated approach to the Group's risk management process taking account of the orderly resolution plan. The aim of the stress tests is to identify possible vulnerabilities and simultaneously, in an adverse shock situation, to assess the possible increase of risk-weighted assets, additional liquidity or capital requirements.

In the first half-year 2017, Dexia Crédit Local performed a series of transversal stress tests (sensitivity analysis, analysis by scenarios, and so on) which rely on macroeconomic scenarios simulating crisis situations. By way of illustration, the impacts of possible results of the presidential elections in France were estimated. These stress tests are performed within the same operational framework as those of the Pillar 2 process: they are linked with the ICAAP and ILAAP processes, as required by the regulations.

In fact, in addition to these macroeconomic stresses and as required by the ECB, in relation to the Pillar 2 regulations and measurements of the capital adequacy, stress tests of financial plans, integrated and specific to the Dexia Crédit Local situation over a horizon of 1 to 5 years, are also performed and the results sent to the supervisors.

Stress tests for market and liquidity risks are also performed regularly in response to the appropriate regulatory requirements. In line with the requirements of Pillar 1, Dexia Crédit Loal performs stress tests covering the majority of the loan portfolios. In this regard, credit exposures covered by internal rating systems are subject to dedicated tests of sensitivity and scenarios involving the unfavourable development of macroeconomic variables.

LITIGATION

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

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

The following updated data are provided for comparison and should be read in conjunction with the corresponding summaries contained or mentioned in the Dexia Crédit Local Registration Document 2016 (available at *www.dexia-creditlocal.fr*).

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

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

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

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

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

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

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

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

Settlement in the last outstanding case concerning alleged GIC bid rigging

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

RATINGS

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

ASSETS *in millions of EUR*		30/06/2016	31/12/2016	30/06/2017
I.	Cash and central banks	3,296	4,222	10,362
II.	Financial assets at fair value through profit or loss	22,202	17,780	15,316
III.	Hedging derivatives	7,710	6,830	5,396
IV.	Financial assets available for sale	20,447	16,548	13,434
V.	Interbank loans and advances	7,360	7,109	6,888
VI.	Customer loans and advances	127,823	118,882	109,551
VII.	Fair value revaluation of portfolio hedges	2,175	1,750	1,501
VIII.	Financial assets held to maturity	242	1,918	1,884
IX.	Current tax assets	29	28	31
X.	Deferred tax assets	35	32	32
XI.	Accruals and other assets	43,389	36,880	34,309
XII.	Non current assets held for sale	276	0	0
XV.	Tangible fixed assets	15	15	14
XVI.	Intangible assets	29	32	35
Total assets		**235,028**	**212,026**	**198,753**

LIABILITIES *in millions of EUR*		30/06/2016	31/12/2016	30/06/2017
I.	Central banks	7,350	690	90
II.	Financial liabilities at fair value through profit or loss	23,705	18,675	15,931
III.	Hedging derivatives	39,764	33,796	29,674
IV.	Interbank borrowings and deposits	46,851	40,850	38,936
V.	Customer borrowings and deposits	10,518	10,778	9,963
VI.	Debt securities	97,573	98,524	94,795
VII.	Fair value revaluation of portfolio hedges	152	100	70
VIII.	Current tax liabilities	13	7	16
IX.	Deferred tax liabilities	103	58	30
X.	Accruals and other liabilities	6,065	4,434	4,581
XIII.	Provisions	225	264	248
XIV.	Subordinated debt	486	482	461
Total liabilities		**232,805**	**208,658**	**194,795**
XV.	Equity(1)	2,223	3,368	3,958
XVI.	Equity, Group share(1)	1,874	2,997	3,565
XVII.	Capital stock and related reserves	2,465	2,465	2,465
XVIII.	Consolidated reserves(1)	5,349	5,349	5,640
XIX.	Gains and losses directly recognised in equity(1)	(5,737)	(5,259)	(4,353)
XX.	Net result of the period(1)	(203)	442	(187)
XXI.	Minority interests	349	371	393
Total liabilities and equity		**235,028**	**212,026**	**198,753**

(1) 30/06/2016 : as a result of errors in the past, 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, for which the result of first half 2016 has been reviewed for EUR -26 million. We also refer to Dexia Crédit Local's Annual report 2016, page 80.

The notes on pages 25 to 39 are an integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

in millions of EUR	30/06/2016	30/06/2017
I. Interest income	5,081	4,973
II. Interest expense	(4,903)	(4,828)
III. Commission income	10	7
IV. Commission expense	(8)	(9)
V. Net gains (losses) on financial instruments at fair value through profit or loss[1]	(199)	(119)
VI. Net gains (losses) on financial assets available for sale	50	77
VII. Other income	24	22
VIII. Other expenses	(14)	(10)
IX. Net banking income	**41**	**113**
X. Operating expenses	(214)	(235)
XI. Depreciation, amortisation and impairment of tangible fixed assets and intangible assets	(8)	(7)
XII. Gross operating income	**(181)**	**(129)**
XIII. Cost of risk	(6)	(5)
XIV. Operating income	**(187)**	**(134)**
XVI. Net gains (losses) on other assets	6	0
XVIII. Net result before tax	**(181)**	**(134)**
XIX. Income tax	(34)	(49)
XXI. Net income	**(215)**	**(183)**
XXII. Minority interests	(12)	4
XXIII. Net income, group share[1]	**(203)**	**(187)**
Earnings per share, Group share *(in EUR)*		
Basic	(0.90)	(0.67)

(1) The result of first half 2016 has been reviewed for EUR -26 million to correct a wrong representation in the past of a currency-denominated transaction which matured in 2016. We also refer to Dexia Crédit Local's Annual report 2016, page 80.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	30/06/2016			30/06/2017		
in millions of EUR	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Net income[1]			**(215)**			**(183)**
Elements reclassified or likely to be subsequently reclassified in net income						
- Cumulative translation adjustments	(18)		(18)	(45)		(45)
- Revaluation of financial assets available for sale or reclassified into loans and receivables or held-to-maturity financial assets.	(614)		(614)	505	9	514
- Revaluation of hedging derivatives	(299)		(299)	324		324
Elements that will never be reclassified or likely to be subsequently reclassified in net income						
- Actuarial gains and losses on defined benefit plans	(5)		(5)	2		2
- Changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk during the period				(48)	26	(22)
- Amount of own credit risk reclassified upon derecognition from accumulated other comprehensive income to equity for the period				(3)		(3)
Total unrealised or deferred gains and losses through equity	**(936)**		**(936)**	**735**	**35**	**770**
Net result and unrealised or deferred gains and losses through equity[1]			**(1,151)**			**587**
of which, Group share			(1,127)			577
of which, Minority interests			(24)			10

(1) The result of first half 2016 has been reviewed for EUR -26 million to correct a wrong representation in the past of a currency-denominated transaction which matured in 2016. We also refer to Dexia Crédit Local's Annual report 2016, page 80.

The notes on pages 25 to 39 are an integral part of these condensed consolidated financial statements.

– CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2017 –

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in millions of EUR	Capital stock and related reserves				Consolidated Reserves	Gains and losses directly recognised in equity						Net income, Group share	Equity, Group share	Minority interests			Equity
	Capital stock	Related reserves	Treasury shares	Total		Change in fair value of financial assets available for sale or reclassified as loans and advances, or as held-to-maturity financial assets net of taxes	Change in fair value of cash flow hedges, net of taxes	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	Total			Capital and reserves	Gains and losses directly recognised in equity	Total	
As at 31 December 2015	**224**	**1,991**	**0**	**2,215**	**5,075**	**(3,835)**	**(1,224)**	**(4)**		**170**	**(4,893)**	**327**	**2,724**	**390**	**(17)**	**373**	**3,097**
Adjustment on opening equity[1]					(53)		79				79		26				26
As at 1st January 2016	**224**	**1,991**	**0**	**2,215**	**5,022**	**(3,835)**	**(1,145)**	**(4)**		**170**	**(4,814)**	**327**	**2,750**	**390**	**(17)**	**373**	**3,123**
Movements during the period																	
- Changes in capital[2]	55	195		250									250				250
- Appropriation of net income 2015					327							(327)	0				0
- Subtotal of shareholders related movements	**55**	**195**		**250**	**327**							**(327)**	**250**				**250**
- Translation adjustments										(17)	(17)		(17)		(1)	(1)	(18)
- Changes in fair value of financial assets available for sale, through equity						(729)					(729)		(729)		(11)	(11)	(740)
- Changes in fair value of derivatives through equity							(188)				(188)		(188)		1	1	(187)
- Changes in fair value of financial assets available for sale or reclassified as loans and advances, through profit or loss						125	,				125		125				125
- Changes in fair value of derivatives through profit or loss							(112)				(112)		(112)				(112)
- Changes in actuarial gains and losses on defined benefit plans								(3)			(3)		(3)		(1)	(1)	(4)
- Subtotal of changes in gains and losses directly recognized in equity						**(604)**	**(300)**	**(3)**		**(17)**	**(924)**		**(924)**		**(12)**	**(12)**	**(936)**
Net income for the period												(203)	(203)	(12)		(12)	(215)
As at 30 June 2016	**279**	**2,186**	**0**	**2,465**	**5,349**	**(4,439)**	**(1,444)**	**(7)**		**153**	**(5,737)**	**(203)**	**1,874**	**378**	**(29)**	**349**	**2,223**
As at 31 December 2016	**279**	**2,186**	**0**	**2,465**	**5,349**	**(4,115)**	**(1,339)**	**(7)**	**0**	**202**	**(5,259)**	**442**	**2,997**	**389**	**(18)**	**371**	**3,368**
- First application of IFRS 9 standard regarding own credit risk of financial liabilities at fair value[3]					(142)				142		142		0				0
- As at 1st January 2017, after first application of IFRS 9 standard regarding own credit risk	**279**	**2,186**	**0**	**2,465**	**5,207**	**(4,115)**	**(1,339)**	**(7)**	**142**	**202**	**(5,117)**	**442**	**2,997**	**389**	**(18)**	**371**	**3,368**
Movements during the period																	
- Changes in capital														4		4	4
- Dividends														(4)		(4)	(4)
- Appropriation of net income 2016					442							(442)	0				0
- Subtotal of shareholders related movements					**442**							**(442)**	**0**	**0**		**0**	**0**
- Translation adjustments										(47)	(47)		(47)		2	2	(45)
- Own credit risk reclassified upon derecognition from accumulated other comprehensive income to equity for the period					3				(3)		(3)		0				0
- Changes in fair value of financial assets available for sale, through equity						344					344		344		2	2	346
- Changes in fair value of derivatives through equity							262				262		262				262
- 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						167					167		167				167
- Changes in fair value of derivatives through profit or loss							64				64		64		(2)	(2)	62
- Changes in actuarial gains and losses on defined benefit plans								2			2		2		1	1	3
- Changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk during the period									(22)		(22)		(22)				(22)
- Subtotal of changes in gains and losses directly recognized in equity						**511**	**326**	**2**	**(25)**	**(47)**	**767**		**767**		**3**	**3**	**770**
- Net income for the period												(187)	(187)	4		4	(183)
- Other variations[4]					(12)					(3)	(3)		(15)	12	3	15	0
As at 30 June 2017	**279**	**2,186**	**0**	**2,465**	**5,640**	**(3,604)**	**(1,013)**	**(5)**	**117**	**152**	**(4,353)**	**(187)**	**3,565**	**405**	**(12)**	**393**	**3,958**

(1) As a result of errors in the past, opening equity has 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, for which the result of first half 2016 has been reviewed of EUR -26 million. We also refer to Dexia Crédit Local's annual report 2016, page 80.
(2) The Extraordinary Sharehoders' 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.
(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 the the gains and losses directly recognised in equity. The total amount of own credit risk as at 31 December 2016 has been transfered in gains and losses directly recognised in equity. We also refer to Dexia Crédit Local's Annual report 2016, note 3.1. and note 7.2.h.
(4) Impact of the reduction of Dexia Crédit Local's interest share in Dexia Israël.

The notes on pages 25 to 39 are an integral part of these condensed consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

in millions of EUR	30/06/2016	30/06/2017
Cash flow from operating activities		
Net income after income taxes(1)	(215)	(183)
Adjustment for:		
- Depreciation, amortization and other impairment	8	7
- Impairment losses (reversal impairment losses) on bonds, equities, loans and other assets	(14)	18
- Net (gains) or losses on investments	(2)	(1)
- Net increases (net decreases) in provisions	(5)	(59)
- Unrealised (gains) or losses	48	137
- Deferred taxes	16	10
Changes in operating assets and liabilities(1)	(1,318)	5,642
Net cash provided (used) by operating activities	**(1,482)**	**5,571**
Cash flow from investing activities		
Purchase of fixed assets	(15)	(9)
Sale of fixed assets	7	
Sales of unconsolidated equity shares	14	6
Net cash provided (used) by investing activities	**6**	**(3)**
Cash flow from financing activities		
Issuance of new shares	250	
Reimbursement of subordinated debts		(20)
Issuance of new shares (minority interests)		4
Dividends paid (minority interests)		(4)
Net cash provided (used) by financing activities	**250**	**(20)**
Net cash provided	**(1,226)**	**5,548**
Cash and cash equivalents at the beginning of the period	**5,326**	**5,564**
Cash flow from operating activities	(1,482)	5,571
Cash flow from investing activities	6	(3)
Cash flow from financing activities	250	(20)
Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents(2)	(48)	(212)
Cash and cash equivalents at the end of the period(1)	**4,052**	**10,900**
Additional information		
Income tax paid	3	(36)
Dividends received	2	1
Interest received	5,331	5,336
Interest paid	(5,209)	(5,308)

(1) The result of first half 2016 has been reviewed for EUR -26 million and the changes in operating assets and liabilities have been modified by EUR 26 million to correct a wrong representation in the past of a currency-denominated transaction which matured in 2016. We also refer to Dexia Crédit Local's Annual report 2016, page 80.

The notes on pages 25 to 39 are an integral part of these condensed consolidated financial statements.

NOTE I. ACCOUNTING PRINCIPLES AND RULES GOVERNING THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – CHANGES IN SCOPE OF CONSOLIDATION – SIGNIFICANT EVENTS OF H1 2017 AND POST-BALANCE-SHEET EVENTS

ACCOUNTING PRINCIPLES AND RULES GOVERNING THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 condensed consolidated financial statements were authorised for issue by the Board of Directors on 30 August 2017.

Accounting policies

The principal accounting policies adopted in the preparation of these condensed 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. Basis of accounting

Dexia Crédit Local's condensed consolidated financial statements have been prepared in accordance with IFRS endorsed by the European Commission up to 30 June 2017 and applicable as from 1 January 2017.

The interim financial statements have been prepared in accordance with the same accounting policies and methods of computation as those used in the preparation of the 2016 annual financial statements, except for the elements stated in the section 2. "Changes in accounting policies since the previous annual publication that may impact Dexia Crédit Local".

In particular, interim financial statements have been prepared and presented in accordance with IAS 34 "Interim Financial Reporting" which provides for condensed set of financial statements and measurements for interim reporting purposes made on a year-to-date basis.

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

- The business plan was constructed from market data available at the end of September 2012; the underlying macroeconomic assumptions are reviewed as part of the half-yearly reviews of the overall plan.
  In particular, the updates made on the basis of market data observable as at 31 December 2016 and validated by the Board of Directors of Dexia on 30 August 2017 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments to date, such as the final version of the CRD IV Directive and implementation of the IFRS 9 accounting standard from 1 January 2018, based on the assumptions known to date.
  The business plan thus revised leads to adjustments in relation to the original plan. These result in a significant change to the trajectory of the Group's resolution as initially anticipated, in particular in terms of profitability, solvency and funding structure, but at this stage they do not raise questions as to the nature and the fundamentals of the resolution.
- The business plan assumes the maintenance of the banking licences of the various entities and the rating of Dexia Crédit Local.
- It moreover assumes that Dexia 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 sharply reduce its reliance on central bank funding to EUR 90 million as at 30 June 2017. On 21 July 2017[1] the European Central Bank announced

(1) Cf. Dexia press release dated 21 July 2017, available at *www.dexia.com*.

the end of access to the Eurosystem for wind-down entities as from 31 December 2021. 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, with its prudent liquidity management, Dexia Crédit Local has also established liquidity reserves. They amounted to EUR 21.2 billion as at 30 June 2017.

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

- It is in particular exposed to the evolution of accounting and prudential rules.
- The financial characteristics of Dexia 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[1] 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.

In preparing the condensed 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 judgment. While management believes that it has considered all available information when making these assumptions, actual results may differ from such estimates and the differences may have a material impact on 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 characteristics and Dexia Crédit Local's intention;
- 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;
- determination of fair value for financial instruments measured at fair value by means of valuation techniques;
- determination on whether Dexia Crédit Local controls the investee, including structured entities (IFRS 10);
- identification of non-current assets and disposal groups held for sale and discontinued operations (IFRS 5);
- hedge accounting;
- existence of a present obligation with probable outflows in the context of litigations;
- identification of impairment triggers.

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;
- the measurement of hedge effectiveness in hedging relations;
- determination of the market value correction to adjust for market value and model uncertainty;
- determination of the useful life and the residual value of property, plant and equipment, and intangible assets;
- actuarial assumptions related to the measurement of employee benefits obligations and plan assets;
- estimate of future taxable profit for the recognition and measurement of deferred tax assets;

The condensed consolidated financial statements are stated in millions of euros (EUR) unless otherwise stated.

(1) 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.

2. Changes in accounting policies since the previous annual publication that may impact Dexia Crédit Local

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

None

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

None

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.
- 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.

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.

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.

  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 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 management 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 IFRS9 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 depends in which bucket 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 IFRS9 standard, Dexia Crédit Local choose to use the prudential definition provided by the regulation No 575/2013 of the European Union, consistently with the definition used for internal credit risk management.

Dexia Crédit Local is not planning to use the simplified approach allowed by IFRS9 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;
- 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.

On-going project and impacts

The impacts of IFRS 9 on the financial statements and the financial and prudential own funds of Dexia Crédit Local are still under assessment. 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 is co-lead by the Chief Financial Officer and the Chief Risk Officer.

The initial diagnostic and impact assessment studies of the application of the standard have been performed:

On the first phase of the standard, Dexia Crédit Local reviews the characteristics and the classification and measurement method of all its financial assets;

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 assets implies, in case of early redemption, the payment or reception by the borrower of an indemnity which depends on the level of market interest rates. These early redemption fee, which are symmetrical, are discussed at the IASB level, regarding the consistency of this feature with the SPPI conditions. Waiting for the final decision of the IASB, the classification of these assets is still uncertain.

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 will depend on strategic decisions to be 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 initiated work to develop a new impairment model;

First of all, the financial assets will be allocated amongst 3 buckets according to the following approach:

Financial assets classified in bucket 3 are financial assets in default, as defined by the prudential regulation.

For other financial assets, the classification in bucket 1 or 2 will depend 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 identification of sensible economic sectors.

If one the these two test 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 macro-economic forecast at medium term. These expected losses also take into account the uncertainty related to these macro-economic assumptions.

On the third phase, 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).

Dexia Crédit Local also reviews new disclosure requirements in the consolidated financial statements.

In 2017, Dexia Crédit Local continues working on the operational implementation of accounting principles. The assessment is conducted to adapt the management and accounting information systems and internal process in order to comply with the new requirements for internal and external reporting related to IFRS 9. These modifications go through several phases of testing during 2017 to be implemented as from 1st January 2018. The reporting on the status of the IFRS 9 project is 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 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 on the 1st January 2017.

As permitted by IFRS 9, Dexia Crédit Local decided not to present, in the 2018 annual report, comparative figures for 2017 restated under the application of IFRS 9 but will maintain 2017 figures under IAS 39.

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

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

At this stage, based on preliminary assessment which is still subject to several uncertainties (described below), 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 will have a positive impact related to the release of unrealised gain or loss recognised 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 & Receivables categories and that are retrospectively cancelled upon transition to IFRS 9). These reserves amount to EUR -3,625 million (Group share) as at 30 June 2017;
- Reclassification of debt securities and loans held for sale when market opportunities will appear from amortised cost category under IAS 39 (Loans & Receivables) to Fair Value Trough Equity under IFRS 9 which will 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, based on their characteristics, mainly from the amortised cost to the Fair Value Through P&L category. The impact of the fair valuation of these assets will probably be negative since the credit spreads have widened from inception, the interest rate risk being hedge besides. The valuation methodology for these loans is under on-going validation process ;

(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).

- Recognition of additional provisions for credit risk, which are under calibration process. 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 provision will be more significant for assets in bucket 2 which includes Financial instruments that have deteriorated significantly in credit quality since initial recognition completed with an additional backstop based on Watchlist or forborn assets. These assets will be subject to life-time expected loss which is higher than bucket 1 expected loss. 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.

  Overall, the net global impact of the first time application of IFRS 9 on Dexia Crédit Local's own funds on the 1st January 2018 is expected to be positive, based on current assumptions. The magnitude of the impact on the financial statements on the 1st January 2018 depends on uncertainty factors among which:
  - The evolution of market conditions and mainly the change in market credit spread until 31 December 2017 ;
  - Strategic decisions that will be made by Dexia Crédit Local during 2017 regarding the management of assets under resolution plan ;
  - Standards amendments or interpretations that may be published in 2017 ;
  - The modification of valuation model for financial assets ;
  - The calibration of expected loss model, including the macro-economic scenarios that will be retained for this estimation ;
  - Regulators and supervisors requirements that may have an impact in the valuation of assets or the level of provisions.

Other elements:

- As from 1st January 2017, the variation of own credit risk related to liabilities designated by option at fair value through profit or loss 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 related to the variation of own credit risk is not recognized in profit or loss but directly in equity (reclassification from "gains and losses directly recognised in equity" to "consolidated reserve") ;
- Some derivatives which are hedging financial assets that will be classified at Fair Value Trough Profit or Loss will not be eligible as hedging instruments contrary to the current treatment under IAS 39 and will be classified as Held for trading under IFRS. These derivatives will remain in the banking book (i.e. not included in the trading book) from a regulatory point of view. The volatility in Profit or Loss related to the interest rate 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 impact Dexia Crédit Local's regulatory own funds.

The final impact on Dexia Crédit Local's regulatory own funds will also depends on prudential filters that will be applied on Dexia Crédit Local's equity under IFRS 9. Apart from prudential valuation on assets measured at fair value, the prudential treatment of IFRS 9 impacts is not yet defined in the European regulations, including the treatment of provision for credit risk. On this last point, the regulator is currently working on gradual transition approaches.

3. Changes in presentation of condensed consolidated financial statements of Dexia Crédit Local

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

The condensed 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".

CHANGES IN SCOPE OF CONSOLIDATION

As at 30 June 2016

There was no significant change in the consolidation scope.

As at 30 June 2017

Following the vote of the General Meeting of 30 March 2017 of Dexia Israel, Dexia Credit 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 does not 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 decreased by EUR 12.2 million and the minority interests increased by the same amount.

SIGNIFICANT EVENTS OF H1 2017

Following the evolution of the financial situation of the Commonwealth of Puerto Rico, Dexia Crédit Local increased the level of provisioning of its assets associated with the Commonwealth of Puerto Rico. An allowance of EUR -89 million (USD -97 million) was recorded in *Cost of risk*. This amount is partly offset by reversals of provisions on exposures disposed as well as reversals of collective provisions.

Also, an amount of EUR -52 million was recycled from *cash-flow hedge reserve* in *Net gains (losses) on financial instruments at fair value through profit or loss* following the interruption of cash flows hedging the financing of exposures related to the Commonwealth of Puerto Rico which are contemplated to be sold.

As at 30 June 2017, the group recorded an amount of EUR -67 million in *Operating expenses* as contribution to the Single Resolution Fund implemented by the European authorities as part of the Single Supervisory Mechanism and an amount of EUR -8 million as tax for systemic risk. These charges were recognized under the principles of accounting standard IFRIC 21 "Levies".

POST BALANCE SHEET EVENTS

On 21st of July 2017, the European Central Bank announced the end of the eligibility of wind-down entities as Eurosystem monetary policy counterparties as from 31 December 2021. The scope of this decision includes the Dexia Group and more specifically Dexia Crédit Local, Dexia Crediop and Dexia Kommunalbank Deutschland. Considering the substantial change of Dexia Crédit Local's funding profile since the end of 2012 and the diversification of its funding sources, the impact of this decision should be limited. This decision of the ECB does not raise any question with regard to Dexia Crédit Local's resolution trajectory.

NOTE II. SEGMENT REPORTING

Having completed its commercial entity disposal program 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.

NOTE III. EXCHANGE RATES

EXCHANGE RATES

		Closing rate			Average rate	
		30/06/2016	31/12/2016	30/06/2017	30/06/2016	30/06/2017
US dollar	USD	1.1103	1.0576	1.1413	1.1132	1.0940

NOTE IV. FAIR VALUE

Some amounts may not add up due to roundings off.

FAIR VALUE MEASUREMENT AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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.

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:

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 conventions. 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.

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.

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.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables compare fair value with carrying amount of financial instruments not measured at fair value.

FAIR VALUE OF FINANCIAL INSTRUMENTS

in millions of EUR	31/12/2016 Carrying amount	31/12/2016 Fair value	31/12/2016 Unrecognised fair value adjustment	30/06/2017 Carrying amount	30/06/2017 Fair value	30/06/2017 Unrecognised fair value adjustment
Cash and central banks	4,222	4,222	0	10,362	10,362	0
Interbank loans and advances	7,109	7,113	4	6,888	6,860	(28)
Customer loans and advances	118,882	111,737	(7,145)	109,551	101,347	(8,204)
Financial assets held to maturity	1,918	1,885	(33)	1,884	1,908	24
Central banks	690	690	0	90	90	0
Interbank borrowings and deposits	40,850	40,849	(1)	38,936	38,901	(35)
Customer borrowings and deposits	10,778	10,816	38	9,963	10,058	95
Debt securities	98,524	98,907	383	94,795	95,215	420
Subordinated debt	482	479	(3)	461	462	1

ANALYSIS OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables provide an analysis of assets and liabilities that are measured subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The fair value measurement is recurring. The non-recurring fair value measurement is not significant for Dexia Crédit Local.

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS (RECURRENT MEASUREMENT)

	31/12/2016				30/06/2017			
in millions of EUR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans and securities held for trading			1,365	1,365			1,279	1,279
Derivatives held for trading		12,253	4,162	16,415		10,386	3,650	14,037
Hedging derivatives		5,477	1,354	6,830		4,392	1,004	5,396
Financial assets available for sale - bonds	13,133	727	2,479	16,338	10,739	707	1,788	13,233
Financial assets available for sale - equities	82	14	114	210	89	7	105	201
Total	**13,215**	**18,471**	**9,474**	**41,158**	**10,827**	**15,493**	**7,826**	**34,146**

FAIR VALUE MEASUREMENT OF FINANCIAL LIABILITIES (RECURRENT MEASUREMENT)

	31/12/2016				30/06/2017			
in millions of EUR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial liabilities designated at fair value		1,278	520	1,797		1,160	506	1,666
Derivatives held for trading		12,549	4,329	16,878		10,277	3,988	14,265
Hedging derivatives		18,479	15,318	33,796		16,108	13,566	29,674
Total		**32,306**	**20,167**	**52,471**		**27,545**	**18,060**	**45,605**

TRANSFER BETWEEN LEVEL 1 AND LEVEL 2

The following tables disclose the amounts of transfers between Level 1 and Level 2 of the fair value hierarchy for assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis.

FINANCIAL ASSETS

	31/12/2016		30/06/2017	
in millions of EUR	From 1 to 2	From 2 to 1	From 1 to 2 (1)	From 2 to 1 (1)
Financial assets available for sale – bonds	550	62	229	384
Total financial assets	**550**	**62**	**229**	**384**

(1) The movements are principally explained by the change in liquidity of certain non European sovereign assets.

ANALYSIS OF THE EVOLUTION OF LEVEL 3

	30/06/2016									
in millions of EUR	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	89				(28)			(98)	1,339
Derivatives held for trading	3,698	568					1,073	(17)	(116)	5,207
Hedging derivatives	1,200	(47)	(1)				32	(48)	(9)	1,126
Financial assets available for sale – bonds	2,375	130	(53)	15	(1)	(108)	860	(153)	14	3,079
Financial assets available for sale – equities	138				(13)				18	143
Total financial assets	**8,786**	**740**	**(54)**	**15**	**(14)**	**(135)**	**1,964**	**(218)**	**(190)**	**10,893**
Financial liabilities designated at fair value	495	74							(8)	560
Derivatives held for trading	4,469	870					45	(32)	(208)	5,143
Hedging derivatives	14,376	3,609	551				37	(813)	(442)	17,316
Total financial liabilities	**19,341**	**4,552**	**551**				**82**	**(846)**	**(659)**	**23,020**

(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 -178 million in result and to EUR -33 million recognised in *Unrealised or deferred gains and losses through equity.* On the liabilities side, they amount to EUR - 651 million recognised in result and to EUR -8 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 at the closing date.

Transfers to level 3 or out of level 3 depend on the liquidity and on the observability of market parameters.

	30/06/2017									
in millions of EUR	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	1,365	19				(46)			(59)	1,279
Derivatives held for trading	4,162	(1,080)		680			6	(2)	(115)	3,650
Hedging derivatives	1,354	(308)	(40)				17	(11)	(9)	1,004
Financial assets available for sale – bonds	2,479	41	62	1	(153)	(187)	61	(413)	(103)	1,788
Financial assets available for sale – equities	115		(1)		(2)	(3)			(3)	105
Total financial assets	**9,475**	**(1,328)**	**21**	**681**	**(155)**	**(237)**	**85**	**(426)**	**(290)**	**7,827**
Financial liabilities designated at fair value	520	13	13						(39)	506
Derivatives held for trading	4,329	(730)		511			1	(2)	(121)	3,988
Hedging derivatives	15,318	(1,231)		2			11	(174)	(360)	13,566
Total financial liabilities	**20,166**	**(1,948)**	**13**	**513**			**12**	**(175)**	**(520)**	**18,060**

(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 -195 million in result and to EUR -37 million recognised in *Unrealised or deferred gains and losses through equity.* On the liabilities side, they amount to EUR -481 million recognised in result and to EUR - 39 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 at the closing date.

Transfers to level 3 or out of level 3 depend on the liquidity and on the observability of market parameters.

SENSITIVITY OF LEVEL 3 VALUATIONS TO ALTERNATIVE ASSUMPTIONS

Dexia Crédit Local fair value applied to bonds and CDS classified in level 3 is partly based on unobservable parameters. The sensitivity analysis described below measures the impact on fair value of alternative assumptions used for unobservable parameters at closing date.

Dexia Crédit Local decided to elaborate alternative assumptions on the following unobservable parameters :

- credit spreads, depending on availability of credit spreads for the same counterparty, or credit spreads based on similar counterparties, similar sectors or by using credit risk indexed on liquid CDS indexes;
- the basis Cash – CDS that allows to deduct bonds spreads from CDS spreads;

Tests have been performed on all bonds and CDS classified in level 3. The main impacts are the following:

- For level 3 bonds in AFS, the sensitivity of the AFS reserve to alternative assumptions is estimated between a positive impact of EUR +19.1 million and a negative impact of EUR -19.1 million for June 2017, while in June 2016, it was estimated between a positive impact of EUR +23.7 million and a negative impact of EUR -23.7 million.
- Negative Basis Trades are considered as one single product, and are therefore tested for the bond and its related CDS together. The main assumption having an impact on their fair value is the unwinding impact. Based on the important number of unwinds performed by Dexia Crédit Local since 2009, and taking into account the stock of remaining NBT transactions in June 2017, the positive impact (unwinds cost of 2014) is EUR +4.7 million whereas the negative impact (unwinds cost of 2011) gives an impact of EUR -18.8 million. For June 2016, the positive impact (unwinds cost of 2014) was EUR +5.1 million whereas the negative impact (unwinds cost of 2011) gave an impact of EUR -20.4 million.

The impact of the credit spreads alternative assumptions on Dexia Crédit Local credit derivatives is estimated at EUR +18.6 million (positive scenario) versus EUR -19.4 million (negative scenario) before tax, while in June 2016, it was estimated at EUR +12.2 million (positive scenario) versus EUR -12.6 million (negative scenario).

DIFFERENCE BETWEEN TRANSACTION PRICES AND MODELLED VALUES (DEFERRED DAY ONE PROFIT)

No amounts were recognised as deferred Day one Profit (DOP).

NOTE V. RELATED-PARTY TRANSACTIONS

ANALYSIS BY NATURE

in millions of EUR	Parent company (Dexia)		Other related parties[1]	
	30/06/2016	30/06/2017	30/06/2016	30/06/2017
Borrowings	568	631	4	73
Net commissions	0	0	(1)	0
Guarantees given by the Group	0	0	0	25

(1) This section includes transactions with Dexia Credit Local's not consolidated legal entities and also the relation between the group Dexia Crédit Local and direct subsidiaries of its mother company Dexia.

As from 31 December 2012, due to subscription by Belgian and French States to the capital increase initiated by Dexia, Dexia Credit Local's parent company, they are the two only shareholders having a significant influence on Dexia Crédit Local.

Group transactions with these shareholders are described in the note 4.4 C of Dexia Crédit Local's annual report 2016 (pages 121 and following). Persuant to IAS 24 § 25, the detail of loans, borrowings or commitments with the Shareholders States are not subject to a separate disclosure.

There were no significant transactions in 1H 2017.

As at 30 June 2017 like as at 30 June 2016, there wasn't any loan granted to the key management.

NOTE VI. LITIGATION

We refer to the chapter Risk Management part Litigation of the Management Report.

CERTIFICATE FROM THE RESPONSIBLE PERSON

I the undersigned, Wouter Devriendt, Chief Executive Officer of Dexia Crédit Local,

hereby declare that, to the best of my knowledge, the condensed consolidated financial statements for the past half year have been prepared in accordance with all applicable accounting standards and provide a true and fair view of the assets, financial position and earnings of all the companies included in the consolidation, and that the interim business report presents an accurate account of all significant events that have taken place during the first six months of the year and their impact on the financial statements, and of all the main risks and uncertainties concerning the remaining six months of the financial year.

The half-year financial information presented in this report is covered by an audit report prepared by the statutory auditors. Based on their review, nothing has come to the statutory auditors' attention that causes them to believe that the accompanying condensed half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

La Défense, 30 August 2017

Wouter Devriendt
Chief Executive Officer

DEXIA CRÉDIT LOCAL STATUTORY AUDITORS' REVIEW REPORT ON FIRST HALF-YEAR FINANCIAL INFORMATION FOR 2017

PERIOD FROM JANUARY 1ST TO JUNE 30TH 2017

This is a free translation into English of the statutory auditors' review report on the half-yearly financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the Group's half-yearly management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by the Annual General Meeting and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code ("*Code monétaire et financier*"), we hereby report to you on:

- the review of the accompanying condensed half-year consolidated financial statements of Dexia Crédit Local, for the period from January 1st, 2017 to June 30th, 2017,
- the verification of the information presented in the interim management report.

These condensed half-year consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

1. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

Without qualifying our conclusion, we draw your attention to the matter set out in Note I.1 to the half-year condensed consolidated financial statements which stipulate that these financial statements have been prepared on a going concern basis, in accordance with IAS1.

2. Specific verification

We have also verified the information presented in the interim management report on the condensed half-year consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed half-year consolidated financial statements.

Neuilly-Sur-Seine and Courbevoie, August 30th 2017

The Statutory Auditors
French original signed by

Deloitte & Associés	Mazars
Pascal Colin	Franck Boyer
Jean-Vincent Coustel	Claire Gueydan-Brun

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Dexia Crédit Local's Financial Report H1 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, the text of the French version shall prevail.