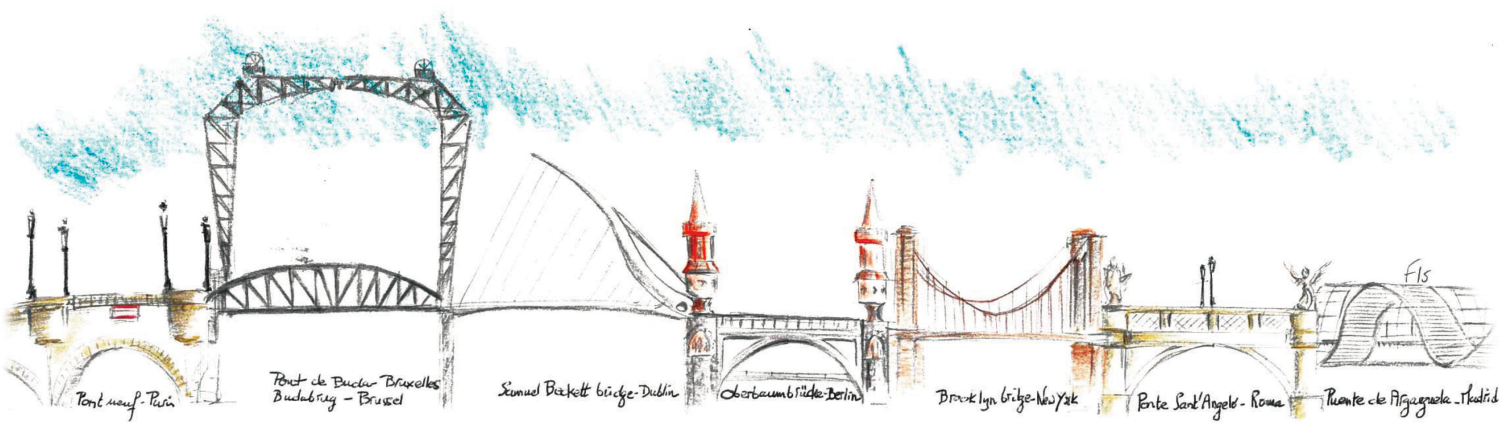

H1 2018

FINANCIAL REPORT

DEXIA CRÉDIT LOCAL DCL

CONTENTS

MANAGEMENT REPORT (1)

FINANCIAL HIGHLIGHTS

CONSOLIDATED STATEMENT OF INCOME – ANC FORMAT		
in millions of EUR	H1 2017 IAS 39	H1 2018 IFRS 9
Net banking income	**113**	**-66**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-242	-238
GROSS OPERATING INCOME	**-129**	**-304**
Cost of credit risk	-5	50
Net gains or losses on other assets	0	8
NET RESULT BEFORE TAX	**-134**	**-246**
Income tax	-49	-6
NET INCOME	**-183**	**-252**
Minority interests	4	-5
NET INCOME, GROUP SHARE	**-187**	**-247**

CONSOLIDATED STATEMENT OF INCOME – ANC FORMAT			
in millions of EUR	30/06/2017 IAS 39	31/12/2017 IAS 39	30/06/2018 IFRS 9
TOTAL ASSETS	**198,753**	**180,434**	**167,787**
of which			
Cash and central banks	10,362	10,721	9,881
Financial assets at fair value through profit or loss	15,316	13,188	15,468
Hedging derivatives	5,396	4,985	4,627
Financial assets available for sale	13,434	10,830	
Financial assets at fair value through other comprehensive income			7,778
Financial assets at amortised cost - Debt securities			48,470
Interbank loans and advances	6,888	5,995	
Financial assets at amortised cost - Interbank loans and advances(*)			31,986
Customer loans and advances	109,551	98,914	
Financial assets at amortised cost - Customer loans and advances(*)			47,908
Accruals and other assets	34,309	30,547	504
TOTAL LIABILITIES	**194,795**	**176,162**	**161,152**
of which			
Central banks	90	0	0
Financial liabilities at fair value through profit or loss	15,931	14,192	13,384
Hedging derivatives	29,674	27,858	25,219
Interbank borrowings and deposits	38,936	31,760	31,975
Debt securities	94,795	89,654	86,259
TOTAL EQUITY	**3,958**	**4,272**	**6,635**
of which			
Equity, Group share	3,565	3,918,	6,335

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

(1) The management report data are unaudited.

INTRODUCTION

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

1. SIGNIFICANT EVENTS AND TRANSACTIONS

A. Progress on Dexia Group's orderly resolution plan

Dynamic management of the balance sheet and risk reduction

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

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

Furthermore, Dexia Crédit Local's exposure to Turkey is now insignificant, as the last subordinated loans of DenizBank were repaid at the end of February 2018.

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

Disposal of the 58.9% holding in Dexia Israel Bank

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

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

Simplification of the international network

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

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

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

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

Implementation of the service outsourcing agreement, signed between Dexia Crédit Local and Cognizant on 4 October 2017, continued during the first half-year 2018 with the transfer, on 1 May 2018, of the back office market and credit teams to Cognizant. The IT teams were transferred in November 2017. In total, 132 Dexia Crédit Local staff members were transferred.

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

B. Evolution of Dexia Crédit Local governance

On 15 May 2018, Gilles Denoyel was appointed director and chairman of the Board of Directors of Dexia Crédit Local, replacing Robert de Metz, whose mandate ended. Gilles Denoyel is also director and chairman of the Board of Directors of Dexia.

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

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

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

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

On 16 July 2018[1], the European Central Bank (ECB) informed Dexia that the specific approach to the tailored, pragmatic and proportionate supervision applied to the Dexia Group since 2015 would not be renewed for 2019. This decision is a part of the trend of convergence of the requirements applied to Dexia towards the general supervision framework which began in 2018.

As from 1 January 2019, Dexia Crédit Local must therefore meet all the regulatory requirements applicable to banking institutions supervised by the ECB, at each consolidation levels. The observance of the constraint regarding large exposures will continue to be applied as described in the communication dated 5 February 2018, i.e. the deduction from CET1 regulatory capital of the economic impact which might be generated by remediation on a failure to respect that ratio[2].

2. RESULTS H1 2018

A. Presentation of Dexia Crédit Local's condensed consolidated financial statements as at 30 June 2018

Going concern

The condensed consolidated financial statements of Dexia Crédit Local as at 30 June 2018 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions underlying the business plan for the resolution of the Dexia Group, decided upon by the European Commission in December 2012. They are listed below:

- The macroeconomic hypotheses underlying the business plan are revised as part of the half-yearly reviews of the overall plan. The update made on the basis of market data observable as at 31 December 2017 and validated by the Board of Directors of Dexia on 27 June 2018 integrates the regulatory developments known to date, including the final version of the CRD IV Directive. It also takes account of the extremely positive impact on Dexia Crédit Local's regulatory capital of the first-time application of the IFRS 9 accounting standard as from 1 January 2018, with Dexia Crédit Local's Total Capital Ratio at 22.1% at the end of June 2018. Finally it takes account of the non-renewal, as from 1 January 2019, of the specific approach implemented by the European Central Bank for the supervision of the Dexia Group[1].
- The ongoing resolution assumes that Dexia Crédit Local retains a sound funding capacity, relying in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on its capacity to raise secured funding. Since the end of 2012, Dexia Crédit Local has considerably reduced its funding requirement, diversified its access to different funding

(1) Cf. Dexia Press Release dated 26 July 2018, available at *www.dexia.com*.
(2) Cf. Dexia Press Release dated 5 February 2018, available at *www.dexia.com*.

sources and taken advantage of favourable market conditions to extend the maturity of its liabilities, with a view to the prudent management of its liquidity. In particular, this enables Dexia Crédit Local to maintain a level of liquidity reserves which is deemed appropriate considering the restriction of access to European Central Bank funding announced on 21 July 2017[1]. The latest update of the business plan takes account of a revision of the funding plan relying on the last observable market conditions.

- The business plan assumes the maintenance of the banking licences of the various entities and the rating of Dexia Crédit Local.

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

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

- In particular, this plan is likely to be impacted by new developments in accounting and prudential rules.
- Dexia Crédit Local is also sensitive to the evolution of its macroeconomic environment and to market parameters, particularly exchange rates, interest rates and credit spreads. An unfavourable evolution of these parameters over time could weigh on its liquidity and solvency positions, for instance by increasing the amount of cash collateral paid by Dexia Crédit Local to its derivatives counterparties or an impact on the valuation of financial assets and liabilities and OTC derivatives, fluctuations of which are booked in the income statement and are liable to result in a fluctuation of the level of Dexia Crédit Local's regulatory capital.
- If market demand for government-guaranteed debt were to decline, Dexia Crédit Local might need to turn to more costly funding sources which would directly impact the profitability assumed in the original business plan;
- Finally, Dexia Crédit Local is exposed to certain operational risks, specific to the resolution environment in which it operates.

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

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

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

Classification and valuation of financial assets

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

Management model

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

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

Asset characteristics

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

(1) On 21 July 2017 the European Central Bank announced the end of access to the Eurosystem for wind-down entities as from 31 December 2021.

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

- Financial assets at amortised cost: this classification includes "hold to collect" assets considered to be SPPI. Such assets are valued at amortised cost;
- Financial assets at fair value through equity: this classification includes "hold to collect and sell" assets considered to be SPPI. Such assets are valued at fair value and value adjustments are booked through equity (Other Comprehensive Income – OCI);
- Financial assets at fair value through profit and loss: this classification includes assets for which the management intention does not correspond to "hold to collect" or "hold to collect and sell", as well as assets considered to be non-SPPI. Such assets are valued at fair value and value adjustments are booked through profit and loss.

Reclassifications made by Dexia Crédit Local

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

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

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

Consequence of reclassifications for Dexia Crédit Local

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

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

Financial asset provisioning model

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

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

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

- The first (stage 1) corresponds to assets for which the credit risk has not deteriorated since origination. The level of provisioning of such assets corresponds to the expected loss over 12 months.
- The second (stage 2) corresponds to assets for which the credit risk has significantly deteriorated since origination, but without a default having been observed. The level of provisioning of such assets corresponds to the expected losses over the residual term.
- The third (stage 3) corresponds to assets on which there has been a default. The level of provisioning corresponds to the expected losses over the residual term. Assets acquired when they had already deteriorated are classified in this category. In this latter case, the modes of calculation of the provisioning level are specific.

Implementation of the new provisioning model by Dexia Crédit Local

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

Hedge accounting

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

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

Consolidated balance sheet

The first-time application of the IFRS 9 accounting standard is reflected by an increase of the balance sheet total by EUR +2.6 billion as at 1 January 2018, principally due to the cancellation of the frozen AFS reserve.

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

Accounting and regulatory equity – solvency ratios

The application of IFRS 9 generates a total positive net impact in the order of EUR 2.6 billion on accounting equity Group share as at 1 January 2018, associated with the reclassifications made and the implementation of the new provisioning model, partially offset by the adjustment to prudential treatment (EUR -0.6 billion).

As a consequence, Common Equity Tier 1 Capital and Total Capital rise by EUR 2.0 billion and EUR 1.9 billion respectively.

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

As a consequence, Dexia Crédit Local's Common Equity Tier 1 Capital and Total Capital ratios amount to 21.2% and 21.7% respectively as at 1 January 2018 against 16.1% and 17.0% as at 31 December 2017, or an increase of 5.1% and 4.7%.

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

ACCOUNTING EQUITY AS AT 1 JANUARY 2018

in millions of EUR	
Accounting equity, Group share – IAS 39	**4,272**
Impact of the new credit risk provisioning model	-183
Impact of the change of accounting classes	435
Cancellation of the premium/discount associated with the reclassification of securities made historically in application of the amended IAS 39	2,370
Other	2
Accounting equity, Group share – IFRS 9	**6,897**

REGULATORY CAPITAL AS AT 1 JANUARY 2018

in millions of EUR	IAS 39	IFRS 9
Accounting equity, Group share	**4,272**	**6,897**
Prudential treatment	1,082	417
Common Equity Tier 1 Capital	**5,354**	**7,314**
Total Capital	**5,629**	**7,485**

SOLVENCY RATIOS AS AT 1 JANUARY 2018

in EUR million unless otherwise stated	IAS 39	IFRS 9
Credit risk-weighted assets	31,197	32,576
Market risk-weighted assets	980	980
Operational risk-weighted assets	1,000	1,000
Risk-weighted assets	**33,177**	**34,556**
Common Equity Tier 1 Capital	5,354	7,314
Common Equity Tier 1 Ratio	**16.1%**	**21.2%**
Total Capital	5,629	7,485
Total Capital Ratio	**17.0%**	**21.7%**

B. Dexia Crédit Local consolidated results for H1 2018

Income statement for the period (non-audited figures)

Over the first half-year 2018, Dexia Crédit Local booked net income Group share of EUR -247 million.

Over that period, net banking income was EUR -66 millions, it included:

- The net interest margin, corresponding to the asset carrying cost and the transformation result, in an amount of EUR 69 million. The net interest margin is down, particularly as a result of the reduction of the asset portfolio, the deconsolidation of Dexia Israel and the lengthening of funding maturities.
- Net commissions of EUR -4 million;
- Net gains or losses on financial instruments at fair value by profit and loss, amounting to EUR -198 million. This amount is explained by the impact of variations of market parameters over the half-year, in particular associated with the valuation of derivatives, marked by the unfavourable evolution of BOR/OIS spreads in euro and pound sterling and Cross Currency Basis Swaps EUR/GBP. The CVA is also negative, as a result of the widening of credit spreads, particularly on banking counterparties.
- Net gains or losses on financial instruments at fair value through equity, in an amount of EUR +62 million, principally due to gains on asset disposals;
- Net gains or losses resulting from the non-recognition of financial instruments at amortised cost, in an amount of EUR -10 million, due to disposals of financial assets and liabilities;
- Net income from other activities, EUR 16 million, essentially corresponding to the evolution of provisions for litigation, gains and losses on litigation and the voluntary contribution to the deposit guarantee fund in Germany.

Operating costs were EUR -230 million. This amount includes EUR -100 million in regulatory taxes and contributions, in particular the contribution from Dexia Crédit Local and its subsidiaries in Germany and Italy to the Single Resolution Fund (EUR -84 million), the special contribution to the Italian national resolution fund (EUR -3 million) and the tax for systemic risk (EUR -4 million). Excluding these taxes and contributions, operating costs were down on the previous half-year.

Amortisations and depreciations of tangible and intangible assets reached EUR -8 million.

The cost of risk was EUR +50 million. This positive amount is principally explained by reversals of impairments after the disposal of exposures associated with the Commonwealth of Puerto Rico, as well as by the revaluation of impairments on exposures classified in stage 2.

Net gains or losses on other assets were EUR 8 million, corresponding to the gain realised on the sale of the Dexia Crédit Local holding in Dexia Israel.

Pre-tax income was EUR -246 million.

Over the half-year, the tax charge was EUR -6 million.

Income attributable to minority interests was EUR -5 million, leading to net income Group share of EUR -247 million over the half-year.

3. EVOLUTION OF THE BALANCE SHEET, SOLVENCY AND LIQUIDITY SITUATION OF DEXIA CRÉDIT LOCAL

A. Balance sheet and solvency

Half-yearly balance sheet evolution

As at 30 June 2018, Dexia Crédit Local's consolidated balance sheet total was EUR 168.3 billion, against EUR 180.4 billion as at 31 December 2017. The sharp fall induced by the dynamic asset portfolio reduction policy and the evolution of the interest rate parameters was partially offset by the impact of the first-time application of the IFRS 9 accounting standard (EUR +2.6 billion) (cf. section dedicated to the first-time application of the IFRS 9 accounting standard).

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

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

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

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

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

Solvency

As at 30 June 2018, Dexia Crédit Local's Common Equity Tier 1 capital was EUR 7.0 billion, against EUR 5.4 billion as at 31 December 2017. The impact associated with the first-time application of the IFRS 9 accounting standard as at 1 January 2018 was EUR 2.0 billion. (cf. section dedicated to the first-time application of the IFRS 9 accounting standard).

In addition to this extremely positive impact, the Group's Common Equity Tier 1 capital as at 30 June 2018 was adversely affected by the negative net result for the financial year (EUR -247 million). The prudential deduction for the persistent surplus of Dexia Crédit Local's large exposures, under the requirements of the European Central Bank[1], amounted to EUR -94 million.

Risk-weighted assets were down over the half-year, at EUR 32.5 billion as at 30 June 2018, of which EUR 29.8 billion for credit risk, EUR 1.8 billion for market risk and EUR 1 billion for operational risk.

Considering these elements, Dexia Crédit Local's Common Equity Tier 1 ratio was 21.6% as at 30 June 2018, against 16.1% at the end of 2017. The Total Capital ratio was 22.1%, against 17.0% at the end of 2017, a level higher than the minimum 12.125% (after taking account of the capital conservation buffer of 1.875%) imposed for the year 2018 by the European Central Bank within the framework of the Supervisory Review and Evaluation Process (SREP).

B. Evolution of Dexia Crédit Local's liquidity situation

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

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

Over the half-year, Dexia Crédit Local successfully launched various long-term public transactions in euro, US dollar and pound sterling, enabling it to raise EUR 5.9 billion, at a competitive funding cost. Short-

CAPITAL ADEQUACY (REGULATORY)

in millions of EUR	30/06/2017	31/12/2017	30/06/2018
Common Equity Tier 1	5,058	5,354	7,034
Total Capital	5,357	5,629	7,204
Risk-weighted assets	36,497	33,177	32,539
Common Equity Tier 1 ratio	13.9%	16.1%	21.6%
Total Capital ratio	14.7%	17.0%	22.1%

RISK-WEIGHTED ASSETS

in millions of EUR	30/06/2017	31/12/2017	30/06/2018
Credit risk	34,187	31,197	29,785
Market risk	1,311	980	1,754
Operational risk	1,000	1,000	1,000
TOTAL	**36,497**	**33,177**	**32,539**

(1) Cf. Dexia Press Releases dated 5 February and 26 July 2018, available at *www.dexia.com*.

term guaranteed funding activity was also sustained, with an average maturity extending to 9.7 months.

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

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

Dexia Crédit Local has made not use of central bank funding since September 2017.

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

On that same date, Dexia Crédit Local's Liquidity Coverage Ratio (LCR) was 199%, against 111% as at 31 December 2017. The Net Stable Funding Ratio (NSFR), estimated on the basis of the latest CRR amendment proposals, would be above the target threshold of 100%, a result of Dexia Crédit Local's efforts since 2013 to improve its funding profile.

CREDIT RISK

For a methodological description of the credit risk management framework, refer to the Annual Report 2017.

As at 30 June 2018, Dexia Crédit Local's exposure to credit risk was EUR 131.3 billion, compared with EUR 141.4 billion at the end of December 2017. This reduction is principally due to natural portfolio amortisation and asset sales, partially offset by the impact of the first-time application of the IFRS 9 accounting standard, particularly the reversal of the AFS reserve.

GROUP EXPOSURE BY GEOGRAPHIC REGION

in millions of EUR	30/06/2017	31/12/2017	30/06/2018
France	26,394	28,198	25,158
Italy	24,227	22,993	22,703
United Kingdom	23,583	22,175	21,308
Germany	19,003	17,835	16,844
United States	24,483	17,439	16,729
Spain	12,393	10,010	8,147
Japan	7,042	6,143	5,882
Portugal	3,838	3,891	4,488
Belgium	2,426	2,071	1,901
Canada	1,761	1,623	1,986
Austria	1,065	1,058	1,041
Central and Eastern Europe	1,133	956	961
Southeast Asia	475	439	444
South and Central America	472	430	372
Switzerland	379	357	360
Scandinavian countries	1,256	528	252
Netherlands	81	88	85
Greece	70	71	66
Luxembourg	58	35	62
Ireland	10	10	7
Turkey	295	169	0
Others(1)	5,873	4,889	2,478
TOTAL	156,317	141,408	131,274

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

Exposures were essentially divided between loans and bonds, at EUR 65.5 billion and EUR 56.3 billion respectively.

Exposures were for the most part concentrated in the European Union (78%) and the United States (13%)

GROUP EXPOSURE BY TYPE OF COUNTERPARTY

in millions of EUR	30/06/2017	31/12/2017	30/06/2018
Local public sector	82,749	75,609	69,522
Central governments	29,974	29,704	28,272
Financial institutions	17,509	13,135	11,467
Project finance	12,192	11,502	10,848
Corporate	6,961	5,792	5,772
ABS/MBS	5,122	4,183	3,845
Monolines	1,810	1,481	1,549
Individuals, SME and self-employed	0	0	0
TOTAL	156,318	141,406	131,275

As at 30 June 2018, exposures remained essentially concentrated on the local public sector and sovereigns (74%), considering Dexia Crédit Local's historic activity. The local public sector portfolio posted a fall of 8% principally due to asset disposals. The sovereign portfolio posted a fall of 5% particularly by virtue of the decrease of assets in deposit with the Bundesbank and the Bank of France. Furthermore, exposure to financial institutions was EUR 11.5 billion, principally composed of "repos" and bonds.

GROUP EXPOSURE BY RATING (INTERNAL RATING SYSTEM)

	30/06/2017	31/12/2017	30/06/2018
AAA	21.3%	21.0%	19.8%
AA	14.2%	14.9%	17.2%
A	25.8%	25.2%	24.3%
BBB	29.4%	29.3%	29.1%
Non Investment Grade	8.2%	8.4%	8.6%
D	0.7%	0.8%	0.6%
Not rated	0.3%	0.4%	0.3%
TOTAL	100%	100%	100%

The average quality of the Dexia Crédit Local credit portfolio remained high, with 90% of exposures rated investment grade as at 30 June 2018.

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
France	25,158	11,285	2,948	1,766	0	9,159	0
Italy(1)	22,703	9,374	367	330	0	12,632	0
United Kingdom	21,308	10,335	8,055	1,131	1,360	61	366
Germany	16,844	14,317	130	2,046	0	350	0
United States	16,729	9,072	874	2,107	2,207	1,285	1,183
Spain	8,147	4,618	1,549	1,291	224	465	0
Japan	5,882	4,753	0	1,108	0	20	0
Portugal	4,488	1,603	77	7	42	2,759	0
Canada	1,901	922	822	157	0	0	0
Poland	550	1	0	0	0	549	0
Greece	85	4	81	0	0	0	0
Ireland	7	0	7	0	0	0	0
Hungary	2	1.5	0	0.5	0	0	0

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

Particular attention is drawn to the countries included in the above table in view of the significant amounts of exposure or a situation representing a potential risk. The main evolutions and significant facts for these sectors and countries in the first half-year 2018 are discussed in the following paragraphs.

Dexia Crédit Local commitments on sovereigns

Dexia Crédit Local commitments on sovereigns are essentially concentrated on France and Italy and to a lesser extent on Portugal and the United States.

After favourable economic conditions in 2017, the beginning of 2018 was marked by a clear slowdown of activity in the euro zone, a return of volatility on the equity and bond markets, which feared higher inflation than forecast in the United States, and an increase of prime rates by the FED. The fears associated with the normalisation of monetary policy in the United States were reflected by a significant increase of rates at different maturities on American treasury notes.

The second quarter was marked by the emergence of two new risk factors. On the one hand, commercial tensions between the United States and their principal trading partners are likely to affect global growth, despite the efforts undertaken to reach a consensus between the various parties. On the other hand, the establishment in Italy of a government including euro-sceptic personalities, supported by a majority including the Lega and the Five Star Movement, winners of the general elections on 4 March, generated a trend of defiance on the financial markets, materialised in a widening of credit spreads on Italian sovereign debt. Moreover, the establishment of this government accentuated political divergences which already existed in the European Union and could weigh on the governance of the Union, as well as on the desire for a strengthening of European integration particularly in France and Germany. To recall, Italian sovereign securities held by Dexia Crédit Local were reclassified at amortised cost on the entry into application of the IFRS 9 accounting standard, their valuation is now insensitive to fluctuations of credit spreads.

The European Central Bank also indicated changes in its monetary policy with an end to asset purchases by the end of the year and a possible rate increase from next year.

In Japan, tensions on the labour market are still high, with a historically low unemployment rate and still weak wage growth. Despite strong foreign demand supporting exports, the decline of residential investment resulted in a significant fall in growth in the first quarter.

Dexia Crédit Local commitments to the local public sector

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

Main points of attention

- **Spain**

  The Spanish State's support to the regions and municipalities continued through the renewal of several financial support funds: EUR 31 billion was paid to the regions in 2017, particularly by the Autonomous Liquidity Fund (FLA). For 2018, an envelope of EUR 17.5 billion has already been granted for the first two quarters. In return for this aid, State control over regional or local finances is increased.

  Catalonia is one of the main Spanish regions and an important centre of economic attractiveness for Spain, but its financial situation remains tense. It presents negative savings rates, heavy indebtedness and tight liquidity leading to a dependency on short-term funding. As a consequence it has the benefit of State support. Following the appointment of new governments in Catalonia and in Spain, financial control by the Spanish State has been waived. The region's finances nonetheless remain subject to control within the framework of the FLA. Dexia Crédit Local has a high level of outstanding on this counterparty (EUR 1.9 billion) but has recorded no payment incident, like the other Spanish regions moreover. Exposure to the Region of Valencia (EUR 0.3 billion) fell significantly in June 2018 as a result of EUR 300 million falling due.

- **United States**

  The majority of exposures to the local public sector in the United States relate to the States (37%) and to local authorities (27%). Like the American local public market, the Dexia Crédit Local portfolio is of good quality and generally covered by monolines.

  The main risks affecting the sector are medium to long-term risks relating to the increase of pension debts (with a reform capacity of pensions more or less significant depending on the legislative framework of each State) and the possible subordination of bond lenders vis-à-vis the beneficiaries of pension schemes as in certain recent insolvencies (failure of the city of Detroit for example).

  - *Puerto Rico*

    Dexia Crédit Local sold practically all of its exposures to public enterprises linked to the Commonwealth of Puerto Rico.

    Dexia Crédit Local's residual exposure was EUR 5 million as at 30 June 2018. This exposure is entirely covered by a good-quality monoline and matures in 2020.

  - *Chicago Board of Education (CBOE)*

    The CBOE suffers from financial difficulties due to an extremely high level of debt, the under-funding of its pension funds and the ongoing decline in student registrations. These difficulties are amplified by the delay on the part of the State of Illinois in paying subsidies to the CBOE. As a consequence, the latter increased its proportion of short-term funding, for which conditions of access hardened.

    Dexia Crédit Local's exposure to the CBOE was EUR 432 million as at 30 June 2018. Approximately 14% of the exposure benefits from monoline cover by Ambac. Moreover, Dexia Crédit Local has a collective provision, in an amount of EUR 20.6 million, to cover the risk of loss. Despite its financial situation, the CBOE continues to honour its commitments and has pre-financed the service of its financial debt until March 2019.

Dexia Crédit Local commitments to project finance and corporates

The project finance and corporate loans portfolio amounted to EUR 17 billion as at 30 June 2018, down 4% on the end of 2017. Beyond natural amortisations and certain early redemptions, this portfolio contracted on the one hand as a result of opportunistic disposals and on the other hand as a result of exchange rate effects (particularly in the UK Utilities sector).

This portfolio consists 65% of project finance, the balance being in finance to large corporates, such as financing for acquisitions, commercial transactions or corporate bonds.

The portfolio is of good quality: 77% project finance and 98% finance to large corporates rated investment grade.

Dexia Crédit Local commitments to ABS

In 2018, Dexia Crédit Local continued the proactive reduction of its ABS portfolio. Under favourable market conditions, in particular Dexia Crédit Local disposed of ABS on US government student loans. As a consequence, as at 30 June 2018, Dexia Crédit Local's ABS portfolio was down 8%, at EUR 3.8 billion. The portfolio of ABS on US student loans still represents a major part of the portfolio (EUR 2.1 billion). These loans are guaranteed in an amount of EUR 2 billion by the US Federal State and present a rather long amortisation profile and a limited expected loss. The balance is principally formed of mortgage-backed securities on residential real estate (RMBS) at EUR 0.3 billion, of which EUR 0.2 billion in Spain.

The portfolio's quality remained stable overall with 97% of the portfolio rated investment grade at the end of June 2018, almost all of the tranches in which Dexia Crédit Local has invested being at a senior level.

Dexia Crédit Local commitments to monolines

Dexia Crédit Local is indirectly exposed to the quality of the signature of monolines, through insurance contracts to cover the timely end of certain types of bonds issued in the form of securities or loans. Through their insurance policy, these monolines irrevocably and unconditionally undertake to repay the principal and interest payable on credits in the case of the underlying counterparty defaulting.

Only Assured Guaranty is still active on the Primary bond issue market, all the other participants now being in run-off (no new guarantees issued). As a consequence, over recent years there has been a consolidation of the sector around Assured Guaranty.

As at 30 June 2018, EUR 14.1 billion of the Dexia portfolio is covered by monolines, including 76% of assets covered by monolines rated investment grade by one or more rating agencies.

Dexia Crédit Local commitments to financial institutions

Dexia Crédit Local commitments to financial institutions amounted to EUR 11.5 billion as at 30 June 2018.

Dexia Crédit Local's exposure to the Italian banking system was limited to EUR 263 million as at 30 June 2018. The exposure to banks rated non-investment grade is less than EUR 1 million, and consists of collateralised derivatives.

Finally, the evolution of the Deutsche Bank group, the situation of which stabilised as a result of an EUR 8 billion capitalisation in 2017, continues to be carefully monitored. Dexia Crédit Local's exposure to that group was EUR 1.1 billion as at 30 June 2018.

Impairments on counterparty risk – asset quality

The first half-year 2018 was marked by the first-time application of the IFRS 9 accounting standard as at 1 January 2018. Application of the new credit risk impairment model under IFRS 9 is reflected by an increase of provisions of EUR 180 million, including EUR 188 million by way of collective provisions, offset by a reversal of EUR -8 million for specific provisions (cf. section dedicated to the first-time application of the IFRS 9 accounting standard).

As at 30 June 2018, impaired assets were down by EUR 119 million, at EUR 757 million. Specific provisions amounted to EUR 214 million, down EUR 42 million. This fall is explained in particular by:

- the disposal of the last impaired securities of an enterprise linked to the Commonwealth of Puerto Rico during the half-year;
- the external refinancing of a debt in the waste management sector in the United Kingdom and the full repayment of railway finance in Serbia, partial repayments of railway finance in Bulgaria and a wind farm project in the United States;
- the reversal of impairments on two hospital structures in France;
- the natural amortisation of other impaired investments.

These reversals are partially offset by new provisions linked in particular to the failure of a public-private partnership to manage an urban motorway in the United Kingdom.

As a consequence, the coverage ratio was 28.3% at the end of June 2018, against 29.2% as at 31 December 2017.

As at 30 June 2018, collective provisions were EUR 488 million, of which EUR 6 million of stage 1 provision and EUR 482 million of stage 2 provision. The stage 2 provision is made up a little more than one half

ASSET QUALITY

in millions of EUR	30/06/2017	31/12/2017	30/06/2018
Impaired assets(1)	1,217	876	757
Specific impairments(2)	326	256	214
Of which			
Stage 3			207
POCI			7
Coverage ratio(3)	26.8%	29.2%	28.3%
Collective provisions	359	327	488
Of which			
Stage 1			6
Stage 2			482

(1) Outstanding: computed according the applicable perimeter defined under IFRS 9 (fair value through equity + Amortised Cost + Off Balance).
(2) Impairments: according the portfolio taken into account for the calculation of the outstanding, inclusive the impairments related to POCI.
(3) Specific impairments-to-Impaired assets ratio.

by provisions on a Portuguese sovereign and on Portuguese local authorities following rating downgrades since origin.

The sharp increase of collective provisions, associated with the first-time application of IFRS 9 is partially offset by:

- natural asset amortisations over the half-year,
- ongoing disposal programmes, particularly on French public sector outstanding,
- the evolution of exchange rates.

MARKET RISK

For a methodological description of the market risk management framework, refer to the Annual Report 2017 – risk measurement.

Value at Risk

At the end of June 2018, the total consumption in VaR of the trading portfolios was EUR 1.4 million, against EUR 3.3 million at the end of 2017.

Sensitivity of the banking portfolio to the evolution of credit spreads

After the application of IFRS 9, the sensitivity to an increase of credit spreads of the income statement as well as the result booked directly in capital evolved in nature and in magnitude.

Under IAS 39, only the fair value of the portfolio of securities classified as "assets available for sale" was sensitive to an increase of credit spreads, impacting result directly in capital. This amounted to EUR -10 million as at 31 December 2017.

Under IFRS 9, the portfolio classified at fair value through equity consists of securities and loans and presents sensitivity to a sharply reduced increase of credit spreads. It was EUR -4.4 million as at 30 June 2018. Furthermore, the portfolio classified at fair value through profit and loss in view of its "non-SPPI" nature, also consisting of securities and loans, presents sensitivity to an increase of credit spreads of EUR -2.5 million as at 30 June 2018.

TRANSFORMATION RISK

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

Framing of the interest rate and exchange risk of the banking portfolio

For a methodological description of the interest rate and exchange risk management framework, refer to the Annual Report 2017.

Sensitivity of long-term ALM was EUR +17.0 million as at 30 June 2018 for the entire Dexia Crédit Local Group, against EUR +13.9 million as at 31 December 2017.

It is in line with ALM strategy which aims to minimise the volatility of the net interest margin.

in millions of EUR	30/06/2018
Sensitivity	+17.0
Limit	±80

Framing of liquidity risk

Dexia Crédit Local measures and informs the various supervisors on a monthly basis of the Liquidity Coverage Ratio (LCR) at the level of the Group and its main banking subsidiaries. This ratio aims to measure the cover of the liquidity requirement at 30 days in a stressed environment by a volume of liquid assets. As at 30 June 2018, the Dexia Group's LCR was 199%, against 111% as at 31 December 2017.

The Net Stable Funding Ratio (NSFR), estimated on the basis of the latest CRR amendment proposals, would be above the target threshold of 100%, a result of Dexia Crédit Local's efforts since 2013 to improve its funding profile.

OPERATIONAL RISK AND IT SYSTEMS SECURITY

The company project identified operational risk management as one of the pillars of Dexia Crédit Local strategy, against the background of its orderly resolution.

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

Only one operational incident recorded in the first half-year 2018 had a financial impact, resulting in a total loss of EUR 6,600.

In 2018 Dexia Crédit Local continued to adapt its structure and its operational processes to its mandate of orderly resolution. This phase of resolution is by nature conducive to the development of operational risks, particularly through factors such as the departure of key people, a possible demotivation of staff members or a change of treatment processes. In particular, projects to outsource certain activities may represent a source of operational risk during the preparation and implementation phases but should in the medium term ensure the operational continuity of the bank and limit operational risks associated with systems, processes and people. During the implementation phase of the Horizon project with Cognizant, outsourcing risks are monitored by the risks department of Dexia Crédit Local, as well as implementation of the governance of operations and risks through mixed Dexia Crédit Local / Cognizant committees. The Watchtower team, set up within Dexia Crédit Local, is responsible for checking the provision and quality of the services provided by Cognizant, whilst the effective control of outsourced activities is in the hands of Internal Control in Dexia Crédit Local and Cognizant entities.

Furthermore, psychosocial risks are monitored carefully by Dexia Crédit Local, accompanied by prevention and assistance actions.

STRESS TESTS

Dexia Crédit Local performs many scenario analysis exercises and stress tests in a transversal and integrated approach to the risk management process. They are aimed at identifying possible vulnerabilities and at simultaneously estimating in an adverse shock situation any additional losses, a possible increase of risk-weighted assets, additional liquidity or capital requirements.

These exercises, used for the purposes of internal guidance, also help to ensure the observance of regulatory requirements in that regard, particularly those relating to stress test, Pillar II and the ICAAP and ILAAP processes defined by the European Central Bank and the EBA guidelines "Common procedures and methodology for Supervisory Review and Evaluation Process (SREP Guidelines)" and "EBA guidelines on institutions' stress testing".

Indeed, a complete programme of stress tests in accordance with the appropriate regulations is thus implemented to ensure a coherent articulation between the different types of stress (including market, Pillar 1 credit, liquidity and the stresses required in the Pillar 2 framework). The main stress tests performed during the first half-year 2018 related in particular to:

- Specific credit stress tests for the main asset classes. In particular, within the framework of Basel Pillar 1, the credit exposures covered by internal rating systems were subjected to sensitivity tests, of macroeconomic, historic and expert scenarios. The results of the stress tests are contrasted with the results of the risk and capital approach on credit risk;
- Market stress tests (highlighting potential events outside the probability of VaR measurement techniques); they have been divided into tests of unique risk factors, tests of historic scenarios and tests of hypothetical scenarios;
- Stress tests associated with the structural interest rate risk enabling the potential impact on Dexia equity of a sudden and unexpected fluctuation of interest rates to be measured, responding to regulatory expectations;
- Liquidity stress tests enabling additional liquidity requirements to be estimated in exceptional but plausible scenarios against a certain horizon.
- A series of specific stress tests (sensitivity analysis, scenario-by-scenario analysis) relying on macroeconomic scenarios simulating crisis situations. They have been estimated, approved internally and forwarded to the supervisory authorities. In association with the Pillar 2 requirements and the requirements of capital adequacy measures, these stress tests are performed in the same operational setting as that of the ICAAP and ILAAP processes.

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

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

RATINGS

RATINGS AS AT 31 AUGUST 2018

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

ASSETS *in millions of EUR*	31/12/2017 IAS 39	01/01/2018 IFRS 9	30/06/2018 IFRS 9
Cash and central banks	10,721	10,721	9,881
Financial assets at fair value through profit or loss	13,188	17,318	15,468
Hedging derivatives	4,985	4,965	4,627
Financial assets available for sale	10,830		
Financial assets at fair value through other comprehensive income		11,635	7,778
Financial assets at amortised cost - Debt securities		49,538	48,470
Interbank loans and advances	5,995		
Financial assets at amortised cost - Interbank loans and advances		33,536	31,986
Customer loans and advances	98,914		
Financial assets at amortised cost - Customer loans and advances		51,425	47,908
Fair value revaluation of portfolio hedges	1,314	1,177	1,078
Financial assets held to maturity	1,750		
Current tax assets	18	18	26
Deferred tax assets	29	29	25
Accruals and other assets	30,547	558	504
Non current assets held for sale	2,105	2,102	0
Tangible fixed assets	4	4	5
Intangible assets	34	34	31
TOTAL ASSETS	**180,434**	**183,060**	**167,787**

LIABILITIES *in millions d'EUR*	31/12/2017 IAS 39	01/01/2018 IFRS 9	30/06/2018 IFRS 9
Financial liabilities at fair value through profit or loss	14,192	15,217	13,384
Hedging derivatives	27,858	26,821	25,219
Interbank borrowings and deposits	31,760	34,929	31,975
Customer borrowings and deposits	6,426	6,780	3,480
Debt securities	89,654	89,654	86,259
Fair value revaluation of portfolio hedges	41	43	18
Current tax liabilities	1	1	0
Deferred tax liabilities	23	23	24
Accruals and other liabilities	3,931	407	418
Liabilities included in disposal groups held for sale	1,894	1,894	0
Provisions	222	234	230
Subordinated debt	160	160	145
TOTAL LIABILITIES	**176,162**	**176,163**	**161,152**
Equity	**4,272**	**6,897**	**6,635**
Equity, Group share	3,918	6,521	6,335
Capital stock and related reserves	2,465	2,465	2,465
Consolidated reserves	5,649	5,016	5,030
Gains and losses directly recognised in equity	(3,955)	(960)	(913)
Net result of the period	(241)		(247)
Minority interests	354	376	300
TOTAL LIABILITIES AND EQUITY	**180,434**	**183,060**	**167,787**

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

CONSOLIDATED STATEMENT OF INCOME

in millions of EUR	30/06/2017 IAS 39	30/06/2018 IFRS 9
Interest income	4,973	4,544
Interest expense	(4,828)	(4,475)
Commission income	7	4
Commission expense	(9)	(8)
Net gains (losses) on financial instruments at fair value through profit or loss	(119)	(198)
Net gains (losses) on financial assets available for sale	77	
Net gains (losses) on financial instruments measured at fair value through other comprehensive income		61
Net gains (losses) arising on derecognition of financial assets measured at amortised cost(1)		(10)
Other income	22	18
Other expenses	(10)	(2)
NET BANKING INCOME	**113**	**(66)**
Operating expenses	(235)	(230)
Depreciation, amortisation and impairment of tangible fixed assets and intangible assets	(7)	(8)
GROSS OPERATING INCOME	**(129)**	**(304)**
Cost of credit risk	(5)	50
OPERATING INCOME	**(134)**	**(254)**
Net gains (losses) on other assets	0	8
NET RESULT BEFORE TAX	**(134)**	**(246)**
Income tax	(49)	(6)
NET INCOME	**(183)**	**(252)**
Minority interests	4	(5)
NET INCOME, GROUP SHARE	**(187)**	**(247)**
Earnings per share, Group share *(en EUR)*		
Basic	(0.67)	(0.88)
Diluted	(0.67)	(0.88)

(1) Following the worsening of the financial position of a project in Spain, loans for an amount of EUR 69 million were sold with a loss of EUR - 5 million. The item also includes a negative result of EUR - 2.5 million on anticipated reimbursement of liabilities.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in millions of EUR	30/06/2017 IAS 39 Before-tax amount	30/06/2017 IAS 39 Tax (expense) benefit	30/06/2017 IAS 39 Net-of-tax amount	30/06/2018 IFRS 9 Before-tax amount	30/06/2018 IFRS 9 Tax (expense) benefit	30/06/2018 IFRS 9 Net-of-tax amount
Net income			**(183)**			**(252)**
Elements reclassified or likely to be subsequently reclassified in net income						
- Cumulative translation adjustments	(45)		(45)	17		17
- Revaluation of financial assets available for sale or reclassified into loans and receivables or into held-to-maturity financial assets	505	9	514			
- Changes in fair value of debt instruments at fair value through other comprehensive income				53	(1)	52
- Revaluation of hedging derivatives	324		324	26	(2)	24
- Other comprehensive income from disposal groups held for sale				(48)	1	(47)
Elements that will never be reclassified or likely to be subsequently reclassified in net income						
- Actuarial gains and losses on defined benefit plans	2		2			
- Own credit risk revaluation directly recognised in equity for the financial liabilities designated at fair value through profit or loss (FVTPL)	(48)	26	(22)	(6)	1	(5)
- Transfer within consolidated reserves of own credit risk amounts related to financial liabilities designated at FVTPL, upon their derecognition	(3)		(3)	(13)		(13)
TOTAL UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY	**735**	**35**	**770**	**29**	**(1)**	**28**
NET RESULT AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY			**587**			**(224)**
of which, Group share			577			(200)
of which, Minority interests			10			(24)

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

– CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2018 –

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Capital stock and related reserves				Consolidated reserves	Gains and losses directly recognised in equity									Net income, Group share	Equity, Group share	Minority interests			Equity
en millions d'EUR	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 debt instruments measured at FVOCI, net of taxes	Change in fair value of equity instruments measured at FVOCI, net of taxes	Change in fair value of cash flow hedges, net of taxes *	Change in unrealised or deferred gains and losses related to non current assets held for sale	Actuarial gains and losses on defined benefit plans	Change in fair value of financial liabilities designated at FVTPL attributable to own credit risk	Translation adjustments	Total			Capital and reserves	Gains and losses directly recognised in equity	Total	
AS AT 31 DECEMBER 2016	279	2,186	0	2,465	5,349	(4,115)			(1,339)	0	(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 designated at fair value through profit or loss					(142)							142		142		0				0
AS AT 1 JANUARY 2017	279	2,186	0	2,465	5,207	(4,115)	0	0	(1,339)	0	(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**
- 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 or reclassified as loans and advances or as held-to-maturity financial assets, through equity						344								344		344		2	2	346
- Gains and losses of the period of cash flow hedge derivatives, through equity									262					262		262		0	0	262
- Amounts reclassified in profit or loss following the sale or the depreciation of financial assets available for sale or reclassified as loans and advances or as held-to-maturity financial assets						167								167		167				167
- Gains and losses on cash flow hedge derivatives reclassified in profit or loss									64					64		64		(2)	(2)	62
- Changes in fair value of financial liabilities designated at FVTPL attributable to own credit risk (OCR)												(22)		(22)		(22)				(22)
- Changes in actuarial gains and losses on defined benefit plans											2			2		2		1	1	3
Subtotal of changes in gains and losses directly recognized in equity					3	511			326		2	(25)	(47)	767		770		3	3	773
- Net income for the period															(187)	(187)	4		4	(183)
- Effect of acquisition and sales on minority interests(1)					(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)	0	(5)	117	152	(4,353)	(187)	3,565	405	(12)	393	3,958
AS AT 31 DECEMBER 2017	279	2,186	0	2,465	5,649	(3,231)			(922)	29	(4)	81	92	(3,955)	(241)	3,918	373	(19)	354	4,272
- Appropriation of net income 2017					(241)										241	0				0
- First application of IFRS 9 standard					(392)	3,231	(247)	(1)				(6)	18	2,995		2,603	(17)	39	22	2,625
AS AT 1 JANUARY 2018	279	2,186	0	2,465	5,016	0	(247)	(1)	(922)	29	(4)	75	110	(960)	0	6,521	356	20	376	6,897
Movements during the period																				
- Translation adjustments													17	17		17				17
- Own credit risk reclassified upon derecognition from accumulated other comprehensive income to equity for the period					13							(13)		(13)						0
- Changes in fair value of financial assets measured at FVOCI, through equity							163							163		163				163
- Amounts reclassified to profit or loss for debt instruments measured at fair value through profit or loss, at impairment or at disposal.							(111)							(111)		(111)				(111)
- Gains and losses of the period of cash flow hedge derivatives, through equity									42					42		42				42
- Gains and losses on cash flow hedge derivatives reclassified in profit or loss									(17)					(17)		(17)				(17)
- Changes in fair value of financial liabilities designated at FVTPL attributable to own credit risk (OCR)												(5)		(5)		(5)				(5)
Subtotal of changes in gains and losses directly recognized in equity					13		52		25			(18)	17	76		89				89
- Net income for the period															(247)	(247)	(5)		(5)	(252)
- Impact of the sale of Dexia Israel										(29)				(29)		(29)	(51)	(19)	(70)	(99)
- Other variations					1											1	(1)		(1)	0
AS AT 30 JUNE 2018	279	2,186	0	2,465	5,030	0	(195)	(1)	(897)	0	(4)	57	127	(913)	(247)	6,335	299	1	300	6,635

(1) Impact of the reduction of Dexia's interest share in Dexia Israel

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

CONSOLIDATED CASH FLOW STATEMENT

in millions of EUR	30/06/2017	30/06/2018
Cash flow from operating activities		
Net income after income taxes	(183)	(252)
Adjustment for:		
- Depreciation , amortization and other impairment	7	8
- Impairment losses (reversal impairment losses) on bonds ,equities,loans and other assets	18	(68)
- Net (gains) or losses on investments	(1)	(24)
- Net increases (net decreases) in provisions	(59)	(4)
- Unrealised (gains) or losses	137	216
- Deferred taxes	10	5
Changes in operating assets and liabilities	5,642	(789)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**5,571**	**(908)**
Cash flow from investing activities		
Purchase of fixed assets	(9)	(19)
Sales of unconsolidated equity shares	6	14
Sales of subsidiaries and of business units[1]		(632)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**(3)**	**(637)**
Cash flow from financing activities		
Reimbursement of subordinated debts	(20)	(24)
Issuance of new shares (minority interests)	4	
Dividends paid (minority interests)	(4)	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	**(20)**	**(24)**
NET CASH PROVIDED	**5,548**	**(1,569)**
Cash and cash equivalents at the beginning of the period	**5,564**	**11,832**
Cash flow from operating activities	5,571	(908)
Cash flow from investing activities	(3)	(637)
Cash flow from financing activities	(20)	(24)
Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents	(212)	29
Cash and cash equivalents at the end of the period	**10,900**	**10,292**
Additional information		
Income tax paid	(36)	(11)
Dividends received	1	2
Interest received	5,336	4,848
Interest paid	(5,308)	(4,730)

(1) Sale of Dexia Israel

The notes on pages XX to XX 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 ITEMS INCLUDED IN THE STATEMENT OF INCOME – POST-BALANCE-SHEET EVENTS – PRESENTATION OF THE EFFECT OF THE STANDARD IFRS 9 "FINANCIAL INSTRUMENTS" ON THE BALANCE AS AT 1ST JANUARY 2018

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 6 September 2018.

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 2018 and applicable as from 1 January 2018.

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 2017 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 financial year-to-date basis.

The condensed consolidated financial statements of Dexia Crédit Local as at 30 June 2018 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions underlying the business plan for the resolution of the Dexia Group, decided upon by the European Commission in December 2012. They are listed below:

- The macroeconomic hypotheses underlying the business plan are revised as part of the half-yearly reviews of the overall plan. The update made on the basis of market data observable as at 31 December 2017 and validated by the Board of Directors of Dexia on 27 June 2018 integrates the regulatory developments known to date, including the final version of the CRD IV Directive. It also takes account of the extremely positive impact on Dexia Crédit Local's regulatory capital of the first-time application of the IFRS 9 accounting standard as from 1 January 2018, with Dexia Crédit Local's Total Capital Ratio at 22.1% at the end of June 2018. Finally it takes account of the non-renewal, as from 1 January 2018, of the specific approach implemented by the European Central Bank for the supervision of the Dexia Group[1].
- The ongoing resolution assumes that Dexia Crédit Local retains a sound funding capacity, relying in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on its capacity to raise secured funding. Since the end of 2012, Dexia Crédit Local has considerably reduced its funding requirement, diversified its access to different funding sources and taken advantage of favourable market conditions to extend the maturity of its liabilities, with a view to the prudent management of its liquidity. In particular, this enables Dexia Crédit Local to maintain a level of liquidity reserves which is deemed appropriate considering the restriction of access to European Central Bank funding announced on 21 July 2017[2]. The latest update of the business plan takes account of a revision of the funding plan relying on the last observable market conditions.
- The business plan assumes the maintenance of the banking licences of the various entities and the rating of Dexia Crédit Local.

(1) Cf. Press Release issued by Dexia on 26 July 2018, available at *www.dexia.com*
(2) On 21 July 2017 the European Central Bank announced the end of access to the Eurosystem for wind-down entities as from 31 December 2021.

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

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

- In particular, this plan is likely to be impacted by new developments in accounting and prudential rules.
- Dexia Crédit Local is also sensitive to the evolution of its macro-economic environment and to market parameters, particularly exchange rates, interest rates and credit spreads. An unfavourable evolution of these parameters over time could weigh on its liquidity and its solvency position, for instance by increasing the amount of cash collateral paid by Dexia Crédit Local to its derivatives counter-parties or an impact on the valuation of financial assets and liabilities and OTC derivatives, fluctuations of which are booked in the income statement and are liable to result in a fluctuation of the level of Dexia Crédit Local's regulatory capital.
- If market demand for government-guaranteed debt were to decline, Dexia Crédit Local might need to turn to more costly funding sources which would directly impact the profitability assumed in the original business plan;
- Finally, Dexia Crédit Local is exposed to certain operating risks, specific to the resolution environment in which it operates.

The condensed consolidated financial statements of Dexia Crédit Local as at 30 June 2018 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions underlying the business plan for the resolution of the Dexia Group, listed below.

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 Amortised Cost, Fair Value Through Other Comprehensive Income, Fair Value Through Profit or Loss and Fair Value Option for measurement purposes based on the assessment of the Dexia Crédit Local's business model for managing financial instruments and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding (SPPI) (IFRS 9) (see note 1.1.6.2.1. for detailed information);
- 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.;
- the use of valuation models when determining the fair value for financial instruments measured at fair value;
- 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);
- identification of the conditions allowing the application of hedge accounting;
- existence of a present obligation with probable outflows in the context of litigations;
- impairment determination based on expected credit loss (ECL) approach : determination of criteria for significant increase in credit risk, choice of appropriate models and assumptions for the measurement of ECL (IFRS 9) (see note 1.1.6.2.5. for detailed information).

Estimates are principally made in the following areas:

- determination of expected credit losses (ECL) to be recognized for impairment of financial assets under IFRS 9 : establishment of the number and relative weightings of forward-looking scenarios and determination of the forward looking information relevant to each scenario, determination of Probability of Default (PD) and Loss Given Default (LGD) (see note 1.1.6.2.5. for detailed information);
- determination of fair value less costs to sell for non-current assets and disposal groups held for sale;
- measurement of hedge effectiveness in hedging relationships ;
- 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.

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 2018

- **IFRS 9** "Financial Instruments", which replaces IAS 39 "Financial Instruments: Recognition and Measurement", substantially changes accounting and financial reporting in three key areas: classification and measurement of financial assets, 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.

The updated accounting policies to take into account IFRS 9 for classification and measurement of financial instruments and impairment of financial assets as applied from 1st January 2018 are presented in section 2.6.1.

The main impacts of the adoption of IFRS 9 on 1st January 2018 are presented below and the transition disclosures are included in the point Presentation of the effect of the standard IFRS 9 "Financial Instruments" on the balance as at 1st january 2018.

Classification and measurement of financial assets:

Based on the analysis of product 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 based on the Dexia Crédit Local's business model for managing these assets. These assets are mainly vanilla floating or fixed rate loans or securities. In addition, Dexia Crédit Local early adopted the Amendment to IFRS 9 "Prepayment Features with Negative Compensation", issued in October 2017, which allows the instruments incorporating symmetric prepayment options to be measured at amortized cost or fair value through other comprehensive income.

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) are classified at Fair Value Through Profit or Loss (FVTPL).

Most of investments in equity instruments and mutual funds units are classified at FVTPL. However, some investments in equity instruments are designated on a case by case basis, at Fair Value through Other Comprehensive Income (FVOCI) (without transfer of amounts accumulated in OCI to profit or loss upon sales).

For financial assets considered as SPPI, the classification at AC or at FVOCI depends on Dexia Crédit Local's business model for managing these assets.

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 SPPI assets which are measured at amortised cost. Another part of Dexia Crédit Local's SPPI financial assets, isolated in dedicated portfolios, is held within a business model collect and sale when market opportunities will appear. These assets are measured at FVOCI. The trade-off between these two portfolios was subject to strategic decisions made by Dexia Crédit Local during 2017.

Apart from derivatives, the trading portfolio of Dexia Crédit Local which is already measured at FVTPL under IAS 39 remains very limited.

Impairment of financial assets :

According to the new impairment model developed by Dexia Crédit Local, the financial assets are allocated amongst 3 stages based on default of counterparties, as defined by the prudential regulation and consistently with the definition used for internal credit risk management (see note 1.1.6.2.5. for detailed information).

Hedge accounting

While awaiting the future IASB standard on macro hedging, and as permitted by IFRS 9, Dexia Crédit Local decided to maintain the requirements of IAS 39 for all the hedge relationships (micro and macro-hedge).

First time application options

As permitted by IFRS 9, Dexia Crédit Local decided to early apply the requirements related to the presentation of gains or losses related to the credit risk on financial liabilities designated as at fair value through profit or loss on the 1st January 2017 without application of other IFRS 9 requirements.

As permitted by IFRS 9, Dexia Crédit Local decided not to restate comparative information under IFRS 9 but to maintain comparative information under IAS 39.

Operational implementation of accounting principles

In 2018, Dexia Crédit Local continues to test and refine the new accounting process and governance framework necessitated by the adoption of IFRS 9.

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

The adoption of IFRS 9 effective 1st January 2018 has resulted in an increase IFRS consolidated equity as of 1st January 2018 of EUR 2,624 million. This effect is comprised of classification and measurement changes of EUR 2,807 million, as well as effects from the implementation of impairment requirements based on an ECL methodology of EUR -183 million. Further detail is provided in the the point Presentation of effect of the standard IFRS 9 "Financial Instruments" on the balance as at 1st january 2018.

Other elements

Some derivatives which are hedging non SPPI financial assets classified at Fair Value Through P&L under IFRS 9 are no longer eligible as hedging instruments contrary to the treatment based on the classification of these assets under IAS 39. These derivatives are consequently classified as Held for trading derivatives under IFRS 9. The volatility related to the interest risk of these assets is offset by the change in fair value of the economic hedging derivatives but the volatility related to credit risk remains.

- **IFRS 15** "Revenue from Contracts with Customers" which replaces IAS 18 "Revenue". This new standard establishes the principles for recognition of revenue from all contracts with customers except those relating to financial instruments, leases and insurance contracts and requires an entity to recognize revenue as performance obligations are satisfied.

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, IFRS 15 does not have a material impact on Dexia Crédit Local's financial statements.

Dexia Crédit Local has elected not to restate comparative figures. No transitional adjustment was recognized in retained earnings on the date of initial application of the standard (modified retrospective approach).

The updated accounting policies to take into account IFRS 15 as applied from 1st January 2018 are presented in section 2.6.2.

- **Amendment to IFRS 4** "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts". This amendment has no impact on the financial statements of Dexia Crédit Local as Dexia Crédit Local is not involved in insurance activities.
- **Amendment to IFRS 1** "First-time Adoption of International Financial Reporting Standards" ("Annual Improvements 2014-2016"). This amendment does not impact the financial statements of Dexia Crédit Local as Dexia Crédit Local is not a first-time adopter.
- **Amendment to IAS 28** "Investments in Associates and Joint Ventures" ("Annual Improvements 2014-2016"). This amendment does not impact the financial statements of Dexia Crédit Local as Dexia Crédit Local has no investments in associates or joint ventures.
- **Amendment to IFRS 2** "Classification and Measurement of Share-based Payment Transactions". This amendment has no impact on the financial statements of Dexia Crédit Local as Dexia Crédit Local has no share-based payments.
- **Amendment to IAS 40** "Transfers of Investment Property". This amendment has no impact on the financial statements of Dexia Crédit Local as Dexia Crédit Local has no investment property.
- **IFRIC Interpretation 22** "Foreign Currency Transactions and Advance Consideration". This interpretation does not have a material impact on Dexia Crédit Local's financial statements.

2.2. IASB texts and IFRIC interpretations endorsed by the European Commission during the current year but not yet applicable as from 1 January 2018

None

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

- **Amendment to IAS 19** "Plan Amendment, Curtailment or Settlement" (issued by IASB in February 2018). This amendment is effective as from 1 January 2019 with earlier application permitted and the impact on Dexia Crédit Local's financial statements is currently being assessed.
- **Amendment to References** to the Conceptual Framework in IFRS Standards (issued by IASB in March 2018). This amendment is effective as from 1 January 2020 and the impact on Dexia Crédit Local's financial reporting is currently being assessed.

2.4. New standard IFRS 16 "Leases"

IFRS 16, in replacement of the current IAS 17 standard and related interpretations, sets out a comprehensive model for the identification and treatment of lease arrangements in the financial statements of both lessees and lessors.

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

In contrast, IFRS 16 does not include significant changes to lessor accounting.

IFRS 16, being endorsed by the European Commission, is effective as from 1 January 2019. The analysis of its impact on Dexia Crédit Local's financial statements is ongoing. Dexia Crédit Local launched its IFRS 16 project in 2017 performing a preliminary impact assessment of the new standard, analyzing lease agreements from all entities, preparing the development of a data base necessary for the recognition of leases under IFRS 16. The accounting information systems and internal process are being adapted in order to comply with the new IFRS 16 requirements.

Dexia Crédit Local, as lessee, expects the main impact of application of the new standard on its financial statements regarding its leases of office buildings used by the group entities.

Lessees are not required to apply IFRS 16 to leases of intangible assets (software for example). In preparing the application of the standard, Dexia Crédit Local decided to use this optional exemption.

At this stage, no final decision has been taken regarding the transition approach to be applied.

2.5. New standard IFRS 17 "Insurance Contracts"

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

2.6. Update to significant accounting policies disclosed in Note 1.1. "Accounting policies and valuation methods" to the 2017 annual financial statements

The adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" resulted in changes to Dexia Crédit Local's accounting policies applicable from 1 January 2018. The accounting policies were also re-designed.

- Accounting polices set out in section 2.6.1. replace those in Notes 1.1.6. "Financial assets and liabilities" in the Dexia Crédit Local consolidated annual financial statements as at 31 December 2017.
- Accounting polices set out in section 2.6.2. replace those in Note 1.1.9. "Fee and commission income and expense" in the Dexia Crédit Local consolidated annual financial statements as at 31 December 2017.
- Accounting polices set out in Note IV "Fair Value" replace those in Note 1.1.7. "Fair Value of financial instruments" in the Dexia Crédit Local consolidated annual financial statements as at 31 December 2017.

As permitted by the transition provisions of IFRS 9 and IFRS 15, Dexia Crédit Local elected not to restate comparative period information. The accounting policies as set out in Note 1 in the Dexia Crédit Local consolidated annual financial statements as at 31 December 2017 apply to comparative periods.

2.6.1. Update to Note 1.1.6. "Financial assets and liabilities" in the financial statements as at 31 December 2017 related to IFRS 9

1.1.6. FINANCIAL ASSETS AND LIABILITIES

Dexia Crédit Local applies all the requirements of IFRS 9 as from 1 January 2018, except for the hedge accounting transactions which continued to be accounted for in accordance with IAS 39. The treatment under IFRS 9 related to changes in the fair value attributable to own credit risk on financial liabilities designated as at fair value through profit or loss is early applied by Dexia Crédit Local as from 1 January 2017.

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

1.1.6.1. Recognition and derecognition of financial instruments

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

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

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

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

1.1.6.2. Classification and measurement of financial assets

On initial recognition of a financial asset, Dexia Crédit Local first assesses the contractual terms of the instrument in order to classify it as an equity instrument (according to the definition in IAS 32 from the issuer's perspective) or a debt instrument.

An equity instrument is defined as any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. In order to satisfy this condition, Dexia Crédit Local verifies that the instrument includes no contractual obligation for the issuer to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer. Puttable instruments or instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation do not meet the definition of equity instruments.

Any instruments which do not meet the criteria of equity instruments are classified as debt instruments by Dexia Crédit Local.

1.1.6.2.1. Classification and measurement of debt instruments

On initial recognition, debt instruments are classified as measured at Amortised Cost (AC), Fair Value through Other Comprehensive Income (FVOCI) or Fair Value Through Profit or Loss (FVTPL). The classification of debt instruments is based on both: the contractual cash flow characteristics of the assets and the entity's business model for managing these assets.

Assessment whether contractual cash flows are solely payments of principal and interest (SPPI)

The SPPI assessment is relevant for debt instruments to assess whether they are allowed to be measured at AC and FVOCI.

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement. In a basic lending arrangement, interest is mainly consideration for the time value of money and credit risk, and can also include consideration for other basic lending risks (liquidity risk) and costs (administrative costs) associated with holding the financial asset for a period of time, as well as a profit margin. For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition.

In assessing whether the contractual cash flows are SPPI, Dexia Crédit Local considers the contractual terms of each instrument, particularly those that could change the timing or amount of contractual cash flows. In making the assessment, Dexia Crédit Local applies judgment when considering whether certain contractual features, such as interest rate reset frequency or non-recourse features, significantly affect future cash flows.

A contractual term that permits the borrower or the lender to prepay or to put the debt instrument back to the issuer before maturity remains consistent with SPPI cash flows, provided the prepayment amount substantially represents the principal remaining due and accrued but unpaid contractual interest, which may include a reasonable compensation. Such compensation can be either positive or negative. Judgment is required when assessing whether compensation paid or received on early termination of lending arrangements results in cash flows that are not SPPI.

Dexia Crédit Local's debt instruments are mainly SPPI which includes vanilla floating or fixed rate loans or securities. Dexia Crédit Local's non-SPPI debt instruments include 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).

Business model assessment

The business model assessment is done on a portfolio basis and is relevant for debt instruments to assess whether they are allowed to be measured at AC and FVOCI.

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).

To determine the classification and measurement of financial assets, three different business models shall be distinguished:

- a business model whose objective is to collect contractual cash flows over the life of the instrument;
- a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- and other business models including held for trading, where collecting contractual cash flows is only incidental.

Consistently with the Orderly Resolution Plan, approved by the European Commission in 2012, to manage the residual assets in run-off without accelerated sale, Dexia Crédit Local will therefore collect the cash flows over the life for a major part of its assets. Another part of Dexia Crédit Local's financial assets, isolated in dedicated portfolios, is held within a business model collect and sale when market opportunities will appear.

Dexia Crédit Local exercises judgment to determine the appropriate level at which to assess its business models.

Any significant sale of a financial asset that could impact the business model whose objective is to collect contractual cash flows over the life of the instrument is subject to analysis and validation by the Transaction Committee, acting as a competence center at Group level.

- **Debt instruments measured at Amortised Cost (AC)**

  A debt instrument is classified as measured at AC if it meets the following conditions:
  - it is held within a business model whose objective is to hold financial assets to collect the contractual cash flows; and
  - the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

  Sales are not an integral part of the amortised cost business model but may be consistent with this business model if the realisation of disposals close to the maturity of the instrument and for an amount close to the remaining contractual cash flows, or due to an increase in the counterparty's credit risk. Sales imposed by regulatory requirements or to manage the concentration of credit risk (without an increase in the asset's credit risk) are also consistent with this business model when they are infrequent or insignificant in value.
  Dexia Crédit Local recognises debt instruments at AC initially at fair value plus transaction costs and subsequently at amortised cost, adjusted for any allowances for expected credit losses (ECL). Interest is calculated using the effective interest rate method and recognised in net interest income.
  The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, to the gross carrying amount of the financial asset not considering the expected credit losses.

- **Debt instruments measured at Fair Value through Other Comprehensive Income (FVOCI)**

  A debt instrument is classified as measured at FVOCI if it meets the following conditions:
  - it is held within a business model whose objective is achieved by both collecting the contractual cash flows and selling financial assets; and
  - the contractual terms of the financial asset give rise, on specified dates, to cash flows that are SPPI.

  Dexia Crédit Local recognises debt instruments at FVOCI initially at fair value (including transaction costs). Interest is recognised based on the effective interest-rate method and recorded in net interest income.
  Dexia Crédit Local subsequently measures these instruments at fair value (see 1.1.7. Fair value of financial instruments). Unrealised gains and losses arising from changes in the fair value are recognised within equity under the heading "Changes in FV of debt instruments at FVOCI".
  When assets are disposed of, Dexia Crédit Local recycles the related accumulated fair value adjustments in the income statement in "Net gains (losses) on financial instruments measured at FVOCI".

- **Debt instruments measured at Fair Value Through Profit or Loss (FVTPL)**

  All other debt instruments are classified in the FVTPL category and consist of assets:
  - not held in business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. This is the case for example for the financial assets Held for trading acquired for generating a profit

from short-term fluctuations in price or dealer's margins, or included in a portfolio in which a pattern of short-term profit-taking exists.
- or alternatively, held in such business model but the contractual terms of the instrument give rise, on specified dates, to cash flows that are not SPPI.

These assets are mandatorily measured at FVTPL.

Dexia Crédit Local initially recognises and subsequently re-measures loans and debt securities held for trading and non-trading assets mandatorily measured at FVTPL in the line "Financial assets at fair value through profit or loss" at their fair value, with all realised and unrealised gains and losses recorded in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". According to Dexia Crédit Local's accounting policy choice, interest income is accrued using the effective interest rate method and is recognised in net interest income.

■ Debt instruments designated at Fair Value Through Profit or Loss (FVO)

In some cases and if appropriately documented, Dexia Crédit Local can irrevocably designate, on initial recognition, a financial asset that otherwise meets the requirements to be measured at AC or at FVOCI as to be measured at FVTPL (Fair Value Option (FVO)) where such designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would otherwise arise.

Unrealised gains and losses on these assets are recorded in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". According to Dexia Crédit Local's accounting policy choice, interest is recognised in net interest income.

■ Reclassifications between categories

Financial assets are not reclassified subsequent to their initial recognition, except in the period after Dexia Crédit Local changes its business model for managing financial assets. A reclassification only occurs when changes in business model are significant to the Dexia Crédit Local's operations and is based on strategic decision by Dexia Crédit Local key management.

The reclassification applies from the start of the first reporting period following the change.

1.1.6.2.2. Classification and measurement of investments in equity instruments

Financial equity instruments are classified in one of the following categories:

■ Mandatorily measured at Fair Value Through Profit or Loss (FVTPL) as non-SPPI financial instrument;

■ Equity instruments designated at Fair Value through Other Comprehensive Income (FVOCI).

Dexia Crédit Local does not have any equity securities held-for-trading.

Dexia Crédit Local initially recognises and subsequently measures assets mandatorily measured at FVTPL at their fair value in the line "Financial assets at fair value through profit or loss". All realised and unrealised gains and losses and dividend income from equity instruments are recorded in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss".

At initial recognition and on a case by case basis, Dexia Crédit Local can make an irrevocable election to include equity investments not held for trading in the FVOCI category under "Financial assets at fair value through OCI". These instruments are subsequently measured at fair value with all changes recognised in other comprehensive income under "Changes in FV of equity instruments at FVOCI" and without any recycling into the income statement. Upon disposal of the investment, Dexia Crédit Local reclassifies the realised amounts within equity and presents them under the heading "Consolidated reserves". Assets classified into this category are not subject to impairment.

Dividend income from these equity instruments is recognised in the income statement under "Net gains (losses) on financial instruments measured at FVOCI".

1.1.6.2.3. Classification and measurement of derivative instruments (trading and hedging)

When a derivative is not designated in a hedge relationship, it is deemed to be held for trading. The main types of Dexia Crédit Local's derivatives are the currency and the interest-rate derivatives but Dexia Crédit Local also makes use of credit derivatives and equity derivatives. Dexia Crédit Local initially and subsequently measures all derivatives at the fair value obtained from quoted market prices, discounted cash flow models or pricing models, as appropriate.

Dexia Crédit Local reports derivatives as assets when fair value is positive and as liabilities when fair value is negative.

■ Trading derivatives

Derivative instruments which are not designated in a hedge relationship are measured at fair value through profit or loss and Dexia Crédit Local makes a distinction as follows:
- derivatives that are held with a hedging intent but for which hedge accounting cannot be or is not applied (economic hedge). All changes in fair value are recognised in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest is recognised in net interest income.

- derivatives held without hedging intent (trading derivative). All fair value changes on such derivatives are recognised under "Net gains (losses) on financial instruments at fair value through profit or loss".

Dexia Crédit Local treats derivatives embedded in financial liabilities as separate derivatives:

- when their risks and characteristics are not closely related to those of the host contract;
- when a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- when the hybrid contract is not carried at fair value with unrealised gains and losses reported in the income statement.

Dexia Crédit Local reports embedded derivatives which were separated under the same heading as the host contract.

- **Hedging derivatives**

Hedging derivatives are derivatives which are specifically designated in a hedge relationship and they are measured based on the type of hedging relationship. The accounting of such derivatives is detailed in the section 1.1.10 "Hedging derivatives".

1.1.6.2.4. Accounting for early repayments and restructuring of loans

Dexia Crédit Local has determined the accounting principles applicable to the restructuring of loans in accordance with B3.3.6 of IFRS 9 dealing with the restructuring of financial liabilities.

- **Restructured and modified financial assets**

When a financial asset restructuring takes place, each case is considered individually. Modifications represent contract amendments that result in an alteration of future contractual cash flows. The method of accounting for restructured and modified loan and early repayment indemnities differ depending on whether or not the restructuring results in terms that are substantially different from those set initially.

A substantial modification of the terms of an existing financial asset is accounted for as an extinguishment of the original financial asset and the recognition of a new financial asset.

The followings, but not limited, factors are considered to determine if the terms of the asset after restructuring is considered as substantially different on a qualitative basis :

- the currency that the debt instrument is denominated in ;
- the interest rate ;
- conversion features attached to the instrument ;
- changes in covenants ;
- change in counterparty.

Moreover, in accordance with B3.3.6 of IFRS 9, Dexia Crédit Local considers that the terms are substantially different when the net present value of the cash flows under the new terms, including any fees paid net of any fees received, is at least 10% different from the net present value of the remaining cash flows from the original loan.

Where the modification does not result in a derecognition, any difference between the modified contractual cash flows discounted at the original EIR and the existing gross carrying value of a financial asset is recognized immediately in the income statement in "Net gains (losses) on financial assets instruments at FVOCI" or "Net gains (losses) on financial assets measured at AC" based on the classification of the asset.

A restructuring or modification of a financial asset measured at AC or of a financial asset measured at FVOCI could lead to a substantial change in the terms and conditions, resulting in the original financial asset being derecognized. The early repayment indemnity is recognized immediately in the income statement in "Net gains (losses) on financial instruments measured at FVOCI" or "Net gains (losses) on financial assets measured at AC" based on the classification of the asset. A new financial asset is recognized at fair value plus eligible transaction costs (even if the asset is classified and measured at amortized cost on subsequent periods).

1.1.6.2.5. Impairment on financial assets

The IFRS 9 standard introduces a new impairment model of financial assets based on expected credit losses (ECL). This new impairment model applies to debt instruments (loans or bonds) measured at amortized cost or 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.

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 stages depending of the evolution of credit risk since initial recognition:

- stage 1: Financial instruments that have not deteriorated significantly in credit quality since initial recognition
- stage 2: Financial instruments that have deteriorated significantly in credit quality since initial recognition but that do not have objective evidence of a credit loss
- stage 3: Financial assets that have objective evidence of impairment at the reporting date, ie the related counterparty is identified as defaulted.

A loss allowance is defined according to the stage in which the financial instrument is allocated:

- when the financial instrument is in stage 1, the amount of loss allowance is equal to 12-month expected credit losses corresponding to the lifetime cash-shortfall that would result of a default occurring in the next 12 months, weighted by the probability that the default occurs during this 12 months period.
- when the financial instrument is in stage 2 and 3, the amount of loss allowance is equal to lifetime expected credit losses, corresponding to the lifetime cash-shortfall that would result in case of a default occurring over the life of the instrument, weighted by the default probability (PD) that the default occurs over the residual maturity of the instrument.

Interest revenue for financial assets allocated in stage 1 or 2 are calculated by applying the Effective Interest Rate (EIR) to the gross carrying amount, while for financial assets in stage 3, EIR is applied to amortised cost.

Dexia Crédit Local does not apply the simplified approach allowed by IFRS 9 for trade receivables (that have a significant financing component) or lease receivables, the ECL calculation of these assets follows the general approach described below.

- **Significant Increase in Credit Risk (SICR)**

  For financial instruments which do not show objective evidence of impairment, and which, therefore, shall be allocated to either stage 1 or 2, Dexia Crédit Local developed an approach based on both a qualitative and a quantitative test to assess if there is any significant increase in credit risk since initial recognition.

  The quantitative test consists of comparing lifetime average through the cycle PDs of the contract at the reporting date and at the inception date. This variation of PD is then normalized by the PD of the worst pre-default rating, defined accordingly to the sector of the counterparty. These PDs are considered over a time horizon equal to the initial maturity of the financial instrument. If the variation is above a given threshold, then, the variation of the PDs indicates that there is a significant deterioration of credit risk and that the financial instrument shall be allocated in stage 2.

  The qualitative part of the approach, relying on forward looking counterparty specific indicators, consists to allocate to stage 2 exposures which -are closely followed up under the watch list process, that have been granted forbearance measures[1] or that belong to a sensitive economic sector[2].

  IFRS 9 standard indicates that regardless of the way in which an entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. Given Dexia Crédit Local's portfolio characteristics and especially its significant public sector sub-portfolio, administration procedures may delay contractual payments. Therefore, for this type of population, a first analysis is performed to ensure that this delay is not relating to administrative procedures, and if not, then the presumption applies and any exception is analyzed and documented individually.

  The PD at origination is not expected to be modified and is determined once and for all for each exposure. However, if the contractual terms of a financial asset are restructured (i.e. renegotiated or refinanced), and if this restructuring leads to a derecognition according to IFRS 9 accounting rules, the restructured asset is considered as a new asset. The test of SICR is then performed on the new characteristics of the restructured asset the PD at origination is therefore updated given the rating of the counterparty at the restructuring date and the maturity of the restructured financial asset.

- **Measurement of Expected Credit Losses**

  Expected Credit Losses calculation for financial instruments classified in stage 1 or 2:

  - *Forward looking*: The calculation of Expected Credit Losses is a function of rating migration probabilities, default probabilities (PD), Loss Given Default (LGD) and Exposure at Default (EAD) parameters. The rating migration probabilities, PD and LGD are point in time and forward looking, meaning they take into account current and forecasted macro economic conditions.

    Capitalizing on Pilar 1 framework Dexia Crédit Local developed internal rating models based on sectors segmentation as well as best estimate average PD, rating migrations and LGD models, built on a multi-year horizon based on historical data.

    These best estimate parameters have been adjusted to derive IFRS 9 Point in Time (PIT) PD and LGD models which capture dependencies between various macro-economic variables and risk parameters and are built statistically by finding historical relations between them. The most relevant macro-economic variables include GDP, unemployment rate, Inflation, GDP growth, as well as yields and interest indicators. Such approach allows projecting PD, rating migrations and LGD given any state of the economy.

    The PIT rating migration probabilities, default probabilities and LGD are backtested on a regular basis according to Dexia Crédit Local's internal backtest policy. The results of these backtests are submitted to the internal validation department and presented to the management bodies.

(1) Forbearance measures are concessions granted to counterparties facing financial difficulties.
(2) Sensitive sectors are economic sectors which demonstrate indication(s) of elevated credit risk.

- *Scenarios*: Dexia Crédit Local developed ECL projections for 3 macro economic scenarios: baseline, upward and downturn, the last two defined symmetrically around the baseline. The baseline macro-economic scenario consists of predictions over a 3 years time horizon on a number of macro-economic and financial market data obtained from the international institutions, such as the European Commission and the International Monetary Fund (IMF). The projections are discussed by the working group, combining experts from the Risk and Finance functions, who can additionally overrule certain forecasts if appropriate.

  The methodology to construct the upturn and downturn scenarios is based upon the historical error range observed between economic forecasts and empirical observations. Probability-weighted ECLs are then obtained by weighting the various scenario ECL outcomes with the scenario probabilities.
- *Cure rate*: The probability that a counterparty cures the default to return to a normal situation (ie with zero loss) is taken into account in all risk parameters estimation.
- *Credit Risk Mitigants*: The credit risk deterioration is measured by the default risk evolution of the original counterpart. The guarantors contractually allocated to the exposure (for example the credit risk enhancer) are taken in account in the calculation of credit risk expected loss by applying the probability of double default of both the borrower and the guarantor. The other guarantees (like the mortgages, pledges, cash collateral) are taken in account in the calculation of expected credit loss by reducing the loss in case of default.
- *Discounting*: Yearly probability weighted ECLs are discounted to the reporting date by the effective interest rate.

  For instruments in stage 1 and stage 2, interest revenue is calculated based on the gross carrying amount of the instrument according to models defined for different sub-portfolios of Dexia Crédit Local.

Expected Credit Losses calculation for financial instruments classified in stage 3

Expected credit losses are defined according to the individual characteristics of the exposure, mainly based on cash flow models, market price models or collateral value. In some marginal cases, no impairment may be allocated, especially when the collateral value exceeds the value of the debt instrument.

For instruments in stage 3, interest revenue is calculated on the amortized cost (i.e., the gross carrying amount after deducting the impairment loss allowance).

When Dexia Crédit Local has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof, the gross carrying amount of a financial asset is reduced. Dexia Crédit Local policy is therefore to recognize a loss through profit or loss upon debt forgiveness which means that no enforcement activity will take place anymore.

- Accounting treatment of expected credit losses

  Dexia Crédit Local recognizes the changes in the amount of expected credit losses related to debt instruments, loan commitments and financial guarantee contracts in profit or loss in "Cost of credit risk" as an impairment gain or loss.

  For off balance sheet undrawn loan commitments and financial guarantee given, expected credit losses are booked on the liability side of Dexia Crédit Local's Balance sheet.

  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.

1.1.6.3. Classification and measurement of financial liabilities

1.1.6.3.1. Liabilities at amortised cost

Dexia Crédit Local recognises Interbank and customer borrowings and debt securities initially at fair value, being generally their issue proceeds, net of any transaction costs incurred. Subsequently, borrowings and debt securities are stated at amortised cost. Dexia Crédit Local recognises any difference between their initial carrying amount and the redemption value in the income statement over the period of the liability using the effective interest rate method.

1.1.6.3.2. Liabilities held for trading

Liabilities held for trading are subject to the same accounting rules as those for loans and debt securities held for trading.

1.1.6.3.3. Liabilities designated at Fair Value Through Profit or Loss (FVO)

In some cases and if appropriately documented, Dexia Crédit Local can irrevocably designate, on initial recognition, a financial liability as to be measured at Fair Value Through Profit or Loss (Fair Value Option (FVO)) where :

- such designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would otherwise arise.
- a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

For subsequent measurement, based on the IFRS 9 requirements early applied by Dexia Crédit Local as from 1 January 2017, Dexia Crédit Local recognises unrealised gains or losses on financial liabilities designated as at Fair Value Through Profit or Loss as follows:

- changes in the fair value attributable to own credit risk are recorded in equity under the dedicated heading "Changes in fair value of financial liabilities designated at Fair Value Though Profit or Loss attributable to own credit risk" within "Gains and losses directly recognized in equity" ;
- the remaining amount of change in the fair value is presented in profit or loss under "Net gains (losses) on financial instruments at fair value through profit or loss".

When liabilities designated as at fair value through profit or loss are derecognized, amounts in equity relating to own credit risk are not recycled to profit or loss. Dexia Crédit Local reclassifies these realised amounts within equity and presents them under the heading "Consolidated reserves".

However, if the treatment of liabilities designated as at fair value through profit or loss as described above would create an accounting mismatch in profit or loss, all changes in the fair value are presented by Dexia Crédit Local in profit or loss.

According to Dexia Crédit Local's accounting policy choice, interest is recognised in net interest income.

2.6.2. Update to Note 1.1.9. "Fee and commission income and expense" in the financial statements as at 31 December 2017 related to IFRS 15

1.1.9. FEE AND COMMISSION INCOME AND EXPENSE

Revenue is measured based on the consideration specific in a contract with a customer and excludes amounts collected on behalf of third parties. Dexia Crédit Local recognises revenue when it transfers the control over a product or service to a customer.

Commissions and fees arising from most of Dexia Crédit Local's activities are recognised on an accrual basis over the life of the underlying transaction.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of loans, equity securities or other securities or the purchase or sale of businesses, are recognised when the significant act has been completed.

Loan commitment fees are recognised as part of the effective interest rate according to IFRS 9 if the loan is granted, and recorded as revenue on expiry if no loan is granted.

Fees that are not an integral part of the effective interest rate are accounted for under IFRS 15. These include fees charges for a servicing loan, commitment fees to originate a loan when the loan commitment is not measured at fair value through profit or loss and it is unlikely that a specific lending agreement will be entered into, and loan syndication fees received by Dexia Crédit Local that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants).

Financial guarantee contracts fees that are not designated at fair value through profit or loss and not in the scope of IFRS 4 "Insurance contracts" are recognised in accordance with IFRS 15.

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

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. As at 30 June 2018, they are compliant with ANC Recommendation 2017-02 issued on 2 June 2017 "on the presentation of the consolidated financial statements of banks prepared in accordance with International Financial Reporting Standards" which cancels and replaces the Recommendation 2013-04 issued on 7 November 2013.

As a result of the application of IFRS 9 and the revised ANC Recommendation, the income statement, balance sheet, statement of comprehensive income and the statement of changes in equity, together with the Notes have changed significantly. Dexia Crédit Local has opted to use transition relief for disclosing comparative information.

The major changes include:

- IAS 39-specific asset categories, such as "Loans and advances", "Financial assets held to maturity", "Financial assets available for sale," have been superseded by the new categories "Financial assets at amortized cost" (with the split between Interbank loans and advances, Customer loans and advances and Debt securities) and "Financial assets at fair value through OCI."
- Cash collaterals, previously presented within "Accruals and other assets" and "Accruals and other liabilities", are now included in items Financial assets at amortized cost - Interbank loans and advances / Customer loans and advances and Financial liabilities at amortized cost – Interbank borrowings and deposits / Customer borrowings and deposits.

- New lines have been created in Consolidated statement of income to present separately gains and losses on financial assets measured at FVOCI and AC and on reclassification of financial assets between categories.
- New lines have been created in Consolidated statement of comprehensive income to identify separately changes in FV for investments in equity instruments designated at FVOCI and for debt instruments classified at FVOCI.
- A new line, Non-trading assets mandatorily at FVTPL, has been created in Notes to present separately impacts on non SPPI financial assets which are not held for trading and mandatorily measured at fair value through profit or loss under IFRS 9.

CHANGES IN SCOPE OF CONSOLIDATION

On March 17, 2018, Dexia Crédit Local reached an agreement with qualified investors concerning an off-market transaction about the sale of all its shares in Dexia Israel, representing 58.89% of the capital. The sale was agreed at a price of NIS 674 per share, for a total amount of EUR 82 million.

Dexia Crédit Local therefore deconsolidated the company on January 1, 2018, and recorded in its consolidated financial statements a gain of EUR 8 million calculated on the basis of the financial statements prepared by Dexia Israel on January 1, 2018 after adoption of IFRS 9.

SIGNIFICANT ITEMS INCLUDED IN THE STATEMENT OF INCOME

The net banking income is impacted by accounting volatility elements for EUR -198 million. They depend on the evolution of the market parameters which directly impact the value of certain elements (derivatives valued on the base of an OIS curve, calculation of the CVA, DVA and FVA).

The Dexia Crédit Local group sold almost all its exposures to the Commonwealth of Puerto Rico. A net gain of EUR 15 million was recognised in *Cost of credit risk* for those assets already impaired. The Dexia Crédit Local group's residual exposure on the Commonwealth of Puerto Rico amounted to EUR 5 million as at 30 June 2018. The exposure is fully covered by a high-quality monoline and matures in 2020.

The *Cost of credit risk*, at EUR 50 million, also included net reversals of provisions for an amount of EUR 26 million and a positive effect on depreciations on purchased or originated credit impaired financial assets (EUR 6 million). As at 30 June 2017, the *Cost of credit risk* amounted to EUR – 5 million.

As at 30 June 2018, the group recognized an amount of EUR -101 million in *Operating expenses* for taxes and regulatory contributions (EUR -83 million as at 30 June 2017). Those expenses were booked in application of the IFRIC 21 standard "Levies".

Dexia Crédit Local disposed of all its shares in Dexia Israel Bank for a total amount of approximately EUR 82 million with a net positive result of about EUR 8 million in Net gains or losses on other assets.

POST-BALANCE-SHEET EVENTS

Nihil

PRESENTATION OF THE EFFECT OF THE STANDARD IFRS 9 ON THE BALANCE AS AT 1ST JANUARY 2018

Impact on impairments and provisions

The implementation of a new approach in terms of credit risk provisioning, as described in the accounting policies and valuation methods for the consolidated accounts (note 1 § 1.1.6.2.5) led to a net increase of provisions of EUR 183 million of which EUR 5 million related to activities held for sale (Dexia Israel).

A little more than the half ot the stage 2 provision related to the Portugese sovereign and to the Portugese local sector following their rating deterioration since origination.

The detail of the amounts (except those related to activities held for sale) is presented hereunder.

	As at 31/12/2017 IAS 39/IAS 37		Reclassification	Remeasurement following expected credit losses	As at 01/01/2018 IFRS 9				
in millions of EUR	Specific impairment	Collective impairment			Stage 1	Stage 2	Stage 3	POCI[1]	Total
ALLOWANCES ON FINANCIAL ASSETS	**257**	**327**	**0**	**165**	**10**	**496**	**231**	**13**	**750**
Financial assets at amortised cost									
- Interbank loans and advances		18		(16)		2			2
- Customer loans and advances	256	309	(199)	(34)	2	153	164	13	332
- Debt securities			178	226	5	334	64		403
- Other assets	1						1		1
Financial assets at fair value through OCI			22	(10)	3	8	1		12
PROVISIONS ON COMMITMENTS AND FINANCIAL GUARANTEES GIVEN	**1**			**12**		**7**	**6**		**13**

(1) Purchased or Originated Credit Impaired debt instruments

Impact on the balance-sheet

The following tables present the transition of assets and liabilities, presented according the accounting standard IAS 39 to the presentation according to the accounting standard IFRS 9.

The implementation of the classification under IFRS 9 is described in the accounting policies and valuation methods for the consolidated accounts (note 1 § 1.1.6.2.).

The consolidated financial statements of the Dexia Crédit Local group are presented as described by the French ANC (Autorité des Normes Comptables, Authority for Accounting Standards). Dexia Crédit Local applies the recommandation n°2017-02 dated 2 june 2017.

ASSETS	31/12/2017	Reclassifications						Carrying amount
in millions of EUR	IAS 39	Modification in ANC presentation (A)	Financial assets available for sale (B)	Financial assets held to maturity (B)	Non-SPPI financial assets (C)	Business model modification (D)	Other (E)	after reclassification
Cash and central banks	10,721							10,721
Financial assets at fair value through profit or loss	13,188		149		4,848	(679)	7	17,513
Hedging derivatives	4,985						(19)	4,965
Financial assets available for sale	10,830		(10,830)					
Financial assets at fair value through other comprehensive income			39			11,433	139	11,611
Financial assets at amortised cost – Debt securities		42,655	10,642	1,750	(659)	(7,640)		46,749
Interbank loans and advances	5,995	(5,995)						
Financial assets at amortised cost – Interbank loans and advances		33,521						33,521
Customer loans and advances	98,914	(98,914)						
Financial assets at amortised cost – Customer loans and advances		58,721			(4,189)	(3,114)		51,418
Fair value revaluation of portfolio hedges	1,314						(137)	1,177
Financial assets held to maturity	1,750			(1,750)				
Current tax assets	18							18
Deferred tax assets	29							29
Accruals and other assets	30,547	(29,989)						558
Non current assets held for sale	2,105							2,105
Tangible fixed assets	4							4
Intangible assets	34							34
TOTAL ASSETS	180,434	0	0	0	0	0	(10)	180,424

(A) Modification in ANC (Autorité des Normes Comptables, Authority for Accounting Standards) presentation

Some modifications were brought to the presentation in the face of the balance sheet following the ANC recommandation n°2017-02 dated 2 june 2017. As at 31/12/2017, cash collaterals were included in the item *Accruals and other assets* (EUR 29 989 million). As at 01/01/2018, following the format proposed by the ANC, they are included in item *Financial assets at amortised cost - Interbank loans and advances* (EUR 29 323 million) and in item *Financial assets at amortised cost - Customer loans and advances* (EUR 666 million). Moreover, debt securities included as at 31/12/2017 in the items *Interbank loans and advances* (EUR 1 900 million) and *Customer loans and advances* (EUR 41 194 million) are now accounted for in the new item *Financial assets at amortised cost - Debt securities* (EUR 43 094 million).

(B) Financial assets available for sale and financial assets held to maturity

Those two categories of financial assets disappear under the standard IFRS 9. As at 31/12/2017, the financial assets available for sale included debt securities (EUR 10 642 million) and equity instruments (EUR 188 million). The IFRS 9 option to value them at fair value through other comprehensive income was chosen for a portfolio amounting to EUR 39 million.

(C) Non SPPI financial assets

The financial assets which do not present the characteristics for the classification in the portfolio at amortised cost (Solely Payment of Principal and Interests) are mandatorily classified at fair value through profit or loss and as such, leave the category at amortised cost.

(D) Business model modification

Classification following the management decisions, independant from the classification IFRS 9. It mainly concerns to the financial assets intended to be sold and classified as *Financial assets at fair value through other comprehensive income.*

(E) Others

It is mainly reclassification of the fair value hedge adjustments of the financial assets taken into account in the PHE portfolio, concerning assets which were accounted for in *Loans and advances* under IAS 39 and which are recognised as *Financial assets at fair value through other comprehensive income* under IFRS 9. Furthermore, hedging derivatives of non SPPI assets are recognized as trading derivatives under IFRS 9.

ASSETS *in millions of EUR*	Carrying amounts after reclassification	Value adjustments			01/01/2018 IFRS 9
		Due to expected credit losses[(A)]	Other[(B)]	Deferred tax impact	
Cash and central banks	10,721				10,721
Financial assets at fair value through profit or loss	17,513	28	(223)		17,318
Hedging derivatives	4,965				4,965
Financial assets at fair value through other comprehensive income	11,611	10	14		11,635
Financial assets at amortised cost - Debt securities	46,749	(226)	3,014		49,538
Financial assets at amortised cost - Interbank loans and advances	33,521	15			33,536
Financial assets at amortised cost - Customer loans and advances	51,418	7			51,425
Fair value revaluation of portfolio hedges	1,177				1,177
Current tax assets	18				18
Deferred tax assets	29				29
Accruals and other assets	558				558
Non current assets held for sale	2,105	(5)		2	2,102
Tangible fixed assets	4				4
Intangible assets	34				34
TOTAL ASSETS	**180,424**	**(171)**	**2,805**	**2**	**183,060**

(A) Value adjustments due to expected credit losses

The analysis is presented above in the paragraph *Impact on impairment and provisions*.

(B) Other

The main impacts are those linked to the release of the premium-discount (unrealised fair value gains and losses) related to previous reclassification to *Loans and advances* under IAS 39 revised (EUR 1,823 million) and to the reclassification of *Financial assets available for sale* to *Financial assets held to maturity* (EUR 546 million). The impact of modification in the accounting classification amounted to EUR 435 million.

LIABILITIES *in millions of EUR*	31/12/2017 IAS 39	Reclassifications			Value adjustments			01/01/2018 IFRS 9
		Modification in ANC presentation (A)	Other (B)	Carrying amount after reclassification	Due to expected credit losses (C)	Other (D)	Deferred tax impact (E)	
Financial liabilities at fair value through profit or loss	14,192		1,025	15,217				15,217
Hedging derivatives	27,858		(1,037)	26,821				26,821
Interbank borrowings and deposits	31,760	3,170		34,929				34,929
Customer borrowings and deposits	6,426	354		6,780				6,780
Debt securities	89,654			89,654				89,654
Fair value revaluation of portfolio hedges	41		2	43				43
Current tax liabilities	1			1				1
Deferred tax liabilities	23			23				23
Accruals and other liabilities	3,931	(3,524)		407				407
Liabilities included in disposal groups held for sale	1,894			1,894				1,894
Provisions	222			222	12			234
Subordinated debt	160			160				160
TOTAL LIABILITIES	**176,162**	**0**	**(10)**	**176,151**	**12**			**176,163**
Equity	**4,272**			**4,272**	**(183)**	**2,805**	**2**	**6,897**
Equity, Group share	3,918			3,918				6,521
Capital stock and related reserves	2,465			2,465				2,465
Consolidated reserves	5,649		(241)	5,408	(182)	(232)	22	5,016
Gains and losses directly recognised in equity	(3,955)			(3,955)		3,015	(21)	(960)
Net result of the period	(241)		241	0				
Minority interests	354			354	(1)	22	1	376
TOTAL LIABILITIES AND EQUITY	**180,434**	**0**	**(10)**	**180,424**	**(171)**	**2,805**	**2**	**183,060**

TOTAL LIABILITIES

(A) Modification in ANC (Autorité des Normes Comptables, Authority for Accounting Standards) presentation

Some modifications were brought to the presentation in the face of the balance sheet following the ANC recommandation n°2017-02 dated 2 june 2017. As at 31/12/2017, cash collaterals were included in item *Accruals and other liabilities* (EUR 3,524 million). As at 01/01/2018, following the format proposed the ANC, they were reclassified in item *Interbank borrowings and deposits* (EUR 3,170 million) and in item *Customer borrowings and deposits* (EUR 354 million).

(B) Other

Under IFRS 9, hedging derivatives of non SPPI assets have to be considered as trading derivatives.

(C) Value adjustments due to expected credit losses

The analysis is presented above in the paragraph "Impact on impairment and provisions"

EQUITY

(C) Value adjustments due to expected credit losses

The impact amounted to EUR -183 million in consolidated reserves and minority interests.

(D) Other

Modifications in accounting classification have an impact of EUR -278 million on *Consolidated reserves*, of EUR 705 million in *Gains and losses directely recognised in equity* and of EUR 8 million in *Minority interests*. In particular, the classification of equity instruments in *Financial assets at fair value through profit or loss* (EUR 149 million) and in *Financial assets at fair value through other comprehensive income* (EUR 39 million) has a positive impact of EUR 23 million in *Consolidated reserves and a negative impact* of EUR - 23 million in *Gains and losses directly recognised in equity.* The release of the premium-discount related to previous reclassification to *Loans and advances* under IAS 39 revised and of *financial assets available for sale* to *Financial assets held to maturity* had an impact of EUR 63 million on *Consolidated reserves*, of EUR 2,293 million on *Gains and losses directly recognised in equity* and of EUR 14 million on *Minority interests*.

(E) Impact on deferred tax

Most of the entities of the Group have a position of unrecognized deferred tax assets, that's why the impact on deferred tax is not significant.

NOTE II. SEGMENT REPORTING

Having completed its commercial entity disposal program as required under the resolution plan, Dexia and Dexia Crédit Local are 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 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.

NOTE III. EXCHANGE RATES

EXCHANGE RATES

		Closing rate			Average rate	
		30/06/2017	31/12/2017	30/06/2018	30/06/2017	30/06/2018
US dollar	USD	1.1413	1.1998	1.1660	1.0940	1.2069

NOTE IV. FAIR VALUE

Some amounts may not add up due to roundings off.

FAIR VALUE 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.

Since 1 January 2018, the approach applied for the allocation by fair value levels has been refined to take into account the additional market observations used for the valuation of financial instruments following the implementation of IFRS 9, in particular for assets measured until now at amortized cost under IAS 39.

2. Valuation techniques

Dexia Crédit Local's approach to the valuation of its financial instruments (instruments at fair value through profit or loss, assets measured at fair value through other comprehensive income and valuations for disclosures) can be summarized as follows:

2.1. Financial instruments measured at fair value (held for trading, non-trading instruments mandatorily measured at fair value through profit or loss, fair value option, measured at fair value through other comprehensive income, 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)

These instruments are valued using the same approach as described above for instruments recognised at fair value on the balance sheet.

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 IAS 39

in millions of EUR	31/12/2017 Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	10,721	10,721	0
Interbank loans and advances	5,995	5,934	(61)
Customer loans and advances	98,914	91,672	(7,242)
Financial assets held to maturity	1,750	1,928	178
Interbank borrowings and deposits	31,760	31,753	(7)
Customer borrowings and deposits	6,426	6,455	29
Debt securities	89,654	90,234	580
Subordinated debt	160	161	1

FAIR VALUE OF FINANCIAL INSTRUMENTS IFRS 9

en millions d'EUR	30/06/2018 Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	9,881	9,881	0
Financial assets at amortised cost – Debt securities	48,470	45,190	(3,280)
Financial assets at amortised cost – Interbank loans and advances	31,986	32,246	260
Financial assets at amortised cost – Customer loans and advances	47,908	43,711	(4,197)
Interbank borrowings and deposits	31,975	31,342	(633)
Customer borrowings and deposits	3,480	3,383	(97)
Debt securities	86,259	86,700	441

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) IAS 39

	31/12/2017			
in millions of EUR	Level 1	Level 2	Level 3	Total
Loans and securities held for trading			679	679
Derivatives held for trading		9,030	3,479	12,509
Hedging derivatives		4,170	814	4,985
Financial assets available for sale - bonds	8,190	12	2,440	10,642
Financial assets available for sale - equities	80	10	98	188
TOTAL	**8,271**	**13,223**	**7,509**	**29,003**

FAIR VALUE MEASUREMENT OF FINANCIAL LIABILITIES (RECURRENT MEASUREMENT) IAS 39

	31/12/2017			
in millions of EUR	Level 1	Level 2	Level 3	Total
Financial liabilities designated at fair value		994	416	1,410
Derivatives held for trading		9,283	3,499	12,782
Hedging derivatives		14,916	12,942	27,858
TOTAL		**25,193**	**16,857**	**42,050**

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS (RECURRENT MEASUREMENT) IFRS 9

	30/06/2018			
in millions of EUR	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss	**167**	**10,705**	**4,596**	**15,468**
Financial assets held for trading		7,081	3,954	11,035
Derivatives		*7,081*	*3,954*	*11,035*
Financial assets mandatorily at FVTPL	167	3,624	642	4,432
Loans and advances		*3,414*	*263*	*3,678*
Debt securities	*82*	*209*	*328*	*620*
Equity instruments	*84*		*50*	*135*
Hedging derivatives		**3,844**	**784**	**4,627**
Financial assets at fair value through OCI	**2,814**	**4,769**	**196**	**7,778**
Loand and advances		*1,592*	*128*	*1,720*
Debt securities	*2,807*	*3,150*	*62*	*6,019*
Equity instruments designated at FVOCI	*7*	*26*	*6*	*39*
TOTAL	**2,980**	**19,317**	**5,576**	**27,873**

FAIR VALUE MEASUREMENT OF FINANCIAL LIABILITIES (RECURRENT MEASUREMENT)) IFRS 9

	30/06/2018			
in millions of EUR	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit and loss		**8,739**	**4,645**	**13,384**
Financial liabilities designated at fair value		*1,264*		*1,264*
Trading derivatives		*7,475*	*4,645*	*12,120*
Hedging derivatives		**13,643**	**11,577**	**25,219**
TOTAL		**22,382**	**16,222**	**38,604**

TRANSFER BETWEEN LEVEL 1 AND LEVEL 2

The tables hereunder present the amounts of financial instruments at fair value, for which fair value measurement is recurring, still in the books at the end of the period and for which the methodology of valuation has been changed between level 1 and level 2.

in millions of EUR	30/06/2017 IAS 39 From 1 to 2(1)	30/06/2017 IAS 39 From 2 to 1(1)
Financial assets available for sale - bonds	229	384
TOTAL FINANCIAL ASSETS	229	384
TOTAL FINANCIAL LIABILITIES	0	0

(1) Mainly as the result of the evolution of the liquidty of non european sovereign bonds.

As at 30 June 2018, there weren't any transfers between levels 1 and 2

ANALYSIS OF THE EVOLUTION OF LEVEL 3

IAS 39

in millions of EUR	30/06/2017 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)	106
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 -95 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. They depend on the liquidity and on the observability of market parameters.

IFRS 9										
	30/06/2018									
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
Financial assets mandatorily at FVTPL										
- Loans and advances	375	228				(10)		(329)		263
- Debt securities	662	(38)				(7)		(291)	2	328
- Equity instruments	67	(3)				(14)			1	50
Trading derivatives	3,423	301			(61)		257		34	3,954
Hedging derivatives	850	(81)	(20)				47	(15)	2	784
Financial assets at fair value through OCI										
- Loans and advances	137	(2)	1			(8)				128
- Debt securities	5,699	(3)			(1,169)	(12)		(4,474)	21	62
- Equity instruments	6									6
TOTAL FINANCIAL ASSETS	**11,218**	**401**	**(19)**		**(1,229)**	**(52)**	**305**	**(5,109)**	**60**	**5,576**
Derivatives held for trading	4,342	29			(91)	(67)	396		36	4,645
Hedging derivatives	12,099	(1,210)	(30)	579	(151)		171		119	11,577
TOTAL FINANCIAL LIABILITIES	**16,441**	**(1,181)**	**(30)**	**579**	**(242)**	**(67)**	**567**		**155**	**16,222**

(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 78 million in result and to EUR - 17 million recognised in *Unrealised or deferred gains and losses through equity*. On the liabilities side, they amount to EUR 155 million recognised in result.

SENSITIVITY OF LEVEL 3 VALUATION TO ALTERNATIVE ASSUMPTIONS

Dexia Crédit Local's fair value applied to financial instruments (bonds, CDS and loans except those valued at amortised cost) is partly based on unobservable parameters. The sensitivity analysis described below measures the impact on the fair value of the instruments classified in level 3 of alternative assumptions used for the unobservable parameters at closing date.

Bonds and CDS

For the instruments within this category, the only unobservable parameters are the credit spreads (of bonds and CDS) for which Dexia Crédit Local uses the available credit spreads for the same counterparty or, if not available, the credit spreads for similar counterparties or belonging to similar sectors.

Therefore, Dexia Crédit Local decided to elaborate alternative assumptions on the credit spreads. As explained in 2017 annual report, at the end of 2017, Dexia Crédit Local has further developed the valuation techniques for Negative Basis Trade (NBT), products that each consist of a bond and a CDS, each of the element is valued independently, whereas they were valued as one single product in June 2017.

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

- For level 3 bonds in the portfolio at fair value through other comprehensive income (FVOCI), the sensitivity of the fair value reserve to alternative assumptions is estimated to vary between EUR -0.48 million (negative impact) and EUR +0.48 million (positive impact) for 2018.
- For level 3 bonds in the portfolio at fair value through profit or loss (FVTPL), the sensitivity of the fair value to alternative assumptions is estimated to vary between EUR -0.95 million (negative impact) and EUR +0.95 million (positive impact) for 2018.

- The impact of the credit spreads' alternative assumptions on Dexia Crédit Local 's credit derivatives is estimated at EUR 14.06 million (positive scenario) versus -14.7 million (negative scenario) before tax, while in June 2017, it was estimated at EUR 18.65 million (positive scenario) versus EUR -19.43 million (negative scenario). It is to be noted that certain CDS are part of the NBT.

In June 2017, the bond and the CDS related to NBT's were tested together. The main assumption having an impact on their fair value was the unwinding impact. Based on the important number of unwinds performed by Dexia Crédit Local since 2009, and taking into account the stock of remaining NBT transactions, in June 2017, the positive impact (average unwinds cost of 2014) is EUR +4.69 million whereas the negative impact (average unwinds cost of 2011) gives an impact of EUR -18.75 million.

Loans at fair value

Concerning this asset class, two unobservable parameters are identified, the credit spread and an additional spread called <<structure add-on>> to account for the complexity of the loan. The credit spread used for the valuation is based on the primary and secondary markets for bonds and loans. Their calibration depends mostly on the business sector and the country risk. For the alternative assumptions, the following calculation rules are applied:

Unobservable Inputs	Asset_Class	Alternatives Assumptions	Worst	Best
Structure Add-on	All	Worst = Add-on x 2; Best = Add-on / 2	80 bp	20 bp
Spreads	Local Public Sector (SPL)	Worst = Spread max; Best = Spread min	200 bp	0 bp
	Project Finance (PFI)	Worst = max spread by ccy & sector; Best = min spread by ccy & sector	To be determined(1)	

(1) Values depend of the sector and of the currency. As an example, for PFI-Utilities in EUR the worst case scenario considers the credit spread at 120 bp while the best case scenario establishes it at 14 bp.

It should be noted that the portfolio of loans at fair value in level 3 consists of about fifty positions, most of which are loans to the Italian Local Public Sector.

The impact of the alternative assumptions is estimated at EUR -27.1 million for the worst-case scenario and EUR +25.4 million for the best-case scenario.

NOTE V. MOVEMENTS IN ALLOWANCES AND PROVISIONS FOR CREDIT LOSSES

Some amounts may not add up due to roundings off.

MOVEMENTS ON ALLOWANCES FOR FINANCIAL ASSETS AND ON PROVISIONS ON COMMITMENTS AND FINANCIAL GUARANTEES GIVEN

	2018					
in millions of EUR	As at 1 Jan.	Transfers between stages	Decreases due to derecognition	Changes due to change in credit risk	Other adjustments(1)	As at 30 June
ALLOWANCES FOR FINANCIAL ASSETS WITHOUT INCREASE IN CREDIT RISK SINCE INITIAL RECOGNITION (STAGE 1)	**10**			**(4)**		**6**
Financial assets at amortised cost	**7**			**(3)**		**4**
- Customer loans and advances	2					2
- Interbank debt securities	2			(2)		
- Customer debt securities	3					3
Financial assets at fair value through other comprehensive income	**3**			**(1)**		**1**
- Debt securities	3			(1)		1
ALLOWANCES FOR FINANCIAL ASSETS WITH SIGNIFICANT INCREASE IN CREDIT RISK SINCE INITIAL RECOGNITION BUT NOT CREDIT-IMPAIRED (STAGE 2)	**496**	**1**	**(1)**	**(20)**	**3**	**479**
Financial assets at amortised cost	**489**			**(17)**	**3**	**474**
-Interbank loans and advances	2					2
-Customer loans and advances	153			(15)		138
-Interbank debt securities	24			(4)	1	21
-Customer debt securities	309			2	2	313
Financial assets at fair value through other comprehensive income	**8**	**1**	**(1)**	**(3)**		**5**
- Customer loans and advances	3	1	(1)			3
- Debt securities	5			(3)		3
ALLOWANCES FOR CREDIT-IMPAIRED DEBT INSTRUMENTS (STAGE 3)	**231**	**(1)**		**(37)**	**2**	**195**
Financial assets at amortised cost	**229**	**(1)**		**(37)**	**2**	**192**
- Customer loans and advances	164	(1)		5	2	170
- Customer debt securities	64			(42)		22
Financial assets at fair value through other comprehensive income	**1**					**1**
- Customer loans and advances	1					1
Other accounts receivable	**1**		**0**			**2**
ALLOWANCES FOR PURCHASED OR ORIGINATED CREDIT IMPAIRED DEBT INSTRUMENTS	**13**			**(6)**		**7**
Financial assets at amortised cost	**13**			**(6)**		**7**
-Customer debt securities	13			(6)		7
TOTAL ALLOWANCES FOR FINANCIAL ASSETS	**750**	**(1)**	**(1)**	**(66)**	**4**	**687**
Provisions on commitments and financial guarantees given						
Provisions on commitments and financial guarantees given (Stage 2)	7			(2)	(2)	3
Provisions on commitments and financial guarantees given (Stage 3)	6					6
TOTAL PROVISIONS ON COMMITMENTS AND FINANCIAL GUARANTEES GIVEN	**13**			**(2)**	**(2)**	**9**

(1) Other adjustments include mainly the effect of the exchange rates.

For H1 2018, there weren't any recoveries of previously written-off amounts recorded directly to the statement of profit or loss nor any amounts written-off directly to the statement of profit or loss.

NOTE VI. RELATED-PARTY TRANSACTIONS

ANALYSIS BY NATURE

in millions of EUR	Parent company (Dexia)		Other related parties[1]	
	30/06/2017	30/06/2018	30/06/2017	30/06/2018
Loans[1]	0	0	0	26
Borrowings	631	635	73	135
Guarantees given by the Group	0	0	25	105

(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 2017. 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 2018.

As at 30 June 2018 like as at 30 June 2017, there wasn't any loan granted to the key management.

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, 6 September 2018

Wouter Devriendt
Chief Executive Officer

DEXIA CRÉDIT LOCAL STATUTORY AUDITORS' REVIEW REPORT ON FIRST HALF-YEAR FINANCIAL INFORMATION FOR 2018

PERIOD FROM JANUARY 1ST TO JUNE 30TH 2018

This is a free translation into English of the statutory auditors' review report on the half-year 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-year 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 your 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 2018 to June 30th 2018,
- the verification of the information presented in the interim management report;

These condenses half-year consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these statements 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 opinion, we draw your attention to the following matters:

- The note I.1 to the 2018 condensed half-year consolidated financial statements which indicate that these financial statements have been prepared on a going concern basis, in accordance with IAS1,
- The note I.2.1 to the condensed half-year consolidated financial statements, which describes the impacts of the presentation changes and the first-time adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from contracts with customers".

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 haf-year consolidated financial statements.

Paris La Défense and Courbevoie, September 6th 2018

The Statutory Auditors

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

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VAT: FR 49 351 804 042

Dexia Crédit Local's Financial Report H1 2018 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.