Financial report
H1 2016

DEXIA

CONTENTS

MANAGEMENT REPORT[1]

FINANCIAL HIGHLIGHTS

CONSOLIDATED STATEMENT OF INCOME – ANC FORMAT		
in millions of EUR	H1 2015	H1 2016
Net banking income	**437**	**10**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-243	-202
Gross operating income	**194**	**-191**
Cost of risk	-160	-6
Net gains or losses on other assets	0	5
Pre-tax income	**34**	**-192**
Income tax	-19	-21
Result from discontinued operations	0	0
Net income	**15**	**-213**
Minority interests	11	-13
Net income Group share	**4**	**-200**

BALANCE SHEET KEY FIGURES – ANC FORMAT		
in millions of EUR	31/12/15	30/06/16
Total assets	**230,281**	**235,887**
of which		
Cash and central banks	4,835	3,296
Financial assets at fair value through profit or loss	20,176	22,203
Hedging derivatives	6,672	7,710
Financial assets available for sale	22,257	20,468
Customer loans and advances	127,876	128,181
Accruals and other assets	38,346	43,395
Total liabilities	**225,734**	**232,443**
of which		
Central banks	15,932	7,350
Financial liabilities at fair value through profit or loss	22,779	23,706
Hedging derivatives	29,978	39,764
Interbank borrowings and deposits	48,780	46,283
Debt securities	91,532	97,573
Total equity	**4,547**	**3,444**
of which		
Equity, Group share	4,118	3,038

(1) The management report data are unaudited.

DEXIA GROUP CONSOLIDATED RESULTS FOR 1H 2016

- **Net income Group share EUR -200 million in H1 2016**
  - Recurring result of EUR -131 million, incorporating EUR -86 million in contributions and levies for the most part booked in Q1, in application of the IFRIC 21 accounting standard
  - Impact of EUR -191 million of accounting volatility elements, against an unfavourable market background
  - Positive contribution of non-recurring elements, associated with active balance sheet management

- **Favourable evolution of the Group's risk profile**
  - Signature of a memorandum of understanding with the Republic of Austria in the Heta Asset Resolution case, application of which is expected during H2 2016
  - Sharp reduction of the risk associated with the sensitive structured loans granted to local authorities and the hospital sector in France
  - Low cost of risk of 1.7 basis points over a sliding 12 month period

- **Balance sheet total of EUR 236 billion: decrease of asset portfolios by EUR 8 billion more than offset by the impact of decrease of interest rates**

- **Common Equity Tier 1 ratio of Dexia SA at 15.0%**
  - Risk-weighted assets down EUR -2 billion
  - 60% deduction of the non-sovereign AFS reserve since 1 January 2016

INTRODUCTION

In H1 2016, the continuing economic recovery in the euro zone was pushed into the background by the result in favour of the United Kingdom leaving the European Union in the referendum held on 23 June. The announcement of that vote opened a period of uncertainty for the British economy and, to a lesser extent, that of the European Union, and generated severe volatility on the financial markets, marked by a weakening of the pound sterling, a flight to quality and distrust of assets subject to contagion.

This situation pushed central banks to continue with their accommodating monetary policies.

These various elements are reflected in the Dexia Group results, in particular in the level of "accounting volatility elements". They also affected the Group's funding requirement and its balance sheet total.

NOTES REGARDING THE DEXIA GROUP'S CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2016

The condensed consolidated financial statements of Dexia SA as at 30 June 2016 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions in the business plan underlying the resolution of the Dexia Group, listed below.

- The business plan was constructed from market data observable at the end of September 2012; the underlying macroeconomic assumptions are reviewed as part of the semi-annual reviews of the entire plan.
  In particular, the updates made on the basis of data available as at 31 December 2015 and validated by the Board of Directors of Dexia SA on 16 August 2016 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments to date, such as the final version of the CRD IV Directive and the implementation of the IFRS 9 accounting standard from 2018, based on assumptions known to date.
  The revised business plan led to adjustments being made in relation to the original plan, but they do not raise any issues regarding the trajectory of the Group's resolution over the long term.
- The business plan assumes maintenance of the banking licences of various entities as well as the rating of Dexia Crédit Local.
- It relies on a robust funding capacity, which is dependent on investor appetite for the debt guaranteed by Belgium, France and Luxembourg and the Group's ability to raise secured funding.
  In this respect, since the approval of the orderly resolution plan in December 2012, the Group's funding structure has benefited from an increase in market, secured or guaranteed funding, at a lower cost than anticipated in the business plan, for larger volumes and longer maturities. This enabled the Group to reduce its recourse to central bank funding and to exit the exceptional funding mechanisms put in place in 2012. By way of prudent liquidity management, Dexia also established liquidity reserves with the aim in particular to deal with an increase in the amount of cash collateral[(1)] posted to its derivatives counterparties. Furthermore, the Group also armed itself against part of the potential effects of the result of the referendum on the United Kingdom remaining in the European Union, by covering its pound sterling requirements over several months.

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

- It is in particular exposed to the evolution of accounting and prudential rules.
- The financial characteristics of Dexia since its entry into resolution do not allow it to ensure compliance with certain regulatory ratios over the whole resolution period, given the evolution of the regulatory framework and of the macroeconomic environment since 2012. The business plan is indeed sensitive to the evolution of the macroeconomic environment. In this regard, the uncertainty generated by the result of the referendum on the United Kingdom remaining in the European Union has resulted in extremely severe volatility of market parameters, including exchange rates, interest rates and credit spreads, to which the Group is particularly sensitive. As at 30 June 2016, the extent of the movements observed remains within the proportions already seen in the past. An unfavourable evolution of these parameters over time could however weigh on the Group's liquidity and its solvency through an increase in the amount of cash collateral posted by Dexia to its derivatives counterparties (as the sensitivity of the liquidity requirement to this parameter is in the order of EUR 1.2 billion for a 10 basis point variation of long-term rates) or an impact on the valuation of assets, financial liabilities and OTC derivatives, the variations of which are booked to the income statement, or are liable to result in a variation of the AFS reserve and the level of the Group's regulatory capital.
- Finally, if market demand for government-guaranteed debt were to decline, Dexia would need to turn to more costly funding sources which would directly impact the profitability assumed in the original business plan.
  The latest update to the business plan shows a surplus liquidity position over the entire projection horizon. The determination of this surplus liquidity relies on a projection of the amount of cash collateral and it is therefore sensitive to variations of the latter. In 2016, sustained activity in long-term guaranteed issues and secured funding, under volatile market conditions, enabled the Group's liquidity reserves to be kept at a level of EUR 14 billion as at 30 June 2016, despite an increase in the net cash collateral posted of EUR 5 billion since 31 December 2015, to EUR 37 billion.

(1) Deposits or financial instruments posted by Dexia to its counterparties in order to secure obligations under interest rate or currency swaps.

1. SIGNIFICANT EVENTS AND TRANSACTIONS

- A prudent management policy enabled the impacts of a volatile environment over the half year to be anticipated and limited
- Signature of a memorandum of understanding with the Republic of Austria on the Heta Asset Resolution case
- Sharp reduction of the risk associated with sensitive structured loans granted to local authorities and the hospital sector in France

A. Consequences of the referendum result in favour of the United Kingdom leaving the European Union

The referendum held on 23 June 2016 on whether the United Kingdom should remain in the European Union saw a majority vote in favour of an exit. This result is the source of uncertainty for the United Kingdom and, to a lesser extent, for the European Union, at both a political and an economic level, and aroused an immediate reaction on the financial markets with severe volatility.

Although the implications of the vote will materialise on a long period and will take time to be fully appreciated, two trends seem to be emerging. On the one hand, insofar as the exit of the United Kingdom from the European Union is perceived as harmful to its economic situation, a readjustment vis-à-vis the British economy was observed in the days following the vote, particularly on the exchange markets. On the other hand, the climate of uncertainty gave rise to a distrust of assets considered to be potentially at risk. It is probable that the negotiations on the exit of the United Kingdom from the European Union, which could last for several years, will be accompanied by continuing severe volatility on the financial markets.

To recall, as at 30 June 2016, Dexia's exposure to counterparties in the United Kingdom was EUR 27 billion. These assets, which the Group is carefully monitoring, are of very good credit quality, and 99% rated in the "investment grade" category. This portfolio includes EUR 13 billion on the local public sector and EUR 9 billion on corporate counterparties, notably utilities, a priori less sensitive to the consequences of the United Kingdom leaving the European Union, and project finance, principally associated with the public sector. Sovereign exposure is negligible.

These volatile market conditions have consequences at several levels for the Dexia Group:

- Firstly they have an impact on its funding requirement and its funding conditions. Although these fears appear today to be lifted, they are likely to disturb access to the refinancing market in pounds sterling. Adopting a cautious approach, Dexia armed itself against this scenario and took measures enabling it to cover its requirement in that currency over several months. Furthermore, the amount of cash collateral paid by the Group to its derivatives counterparties is sensitive to the fall of interest rates, particularly in euros. The fall of long rates observed in the weeks following the referendum is reflected as a consequence by an increase in the amount of cash collateral posted by Dexia.
- Variations of market parameters, in particular exchange and interest rates, impact the valuation of assets and liabilities and the valuation of OTC derivatives. Observed value adjustments are booked in the income statement. More severe volatility on the financial markets is therefore reflected through the Group's income statement. From the start of the half-year, however, the Group took structural measures to limit its sensitivity to exchange variations on sterling and volatility on the income statement arising therefrom.
- Finally, the Group's AFS reserve is sensitive to the evolution of credit spreads on assets in the AFS portfolio. As a consequence, a deterioration of market conditions affects the amount of the Group's regulatory capital.

Despite severe volatility after the announcement of the referendum result, the extent of the variations of market parameters observed as at 30 June 2016 remains within the proportions already observed in the past. These movements nonetheless weigh on the funding requirement and on the level of the Group's regulatory capital (cf. sections on results, liquidity and solvency).

B. Update on the Group's credit environment

As at 30 June 2016, the Dexia Group credit portfolio remains of good quality overall, with 89% of exposures rated "investment grade". The cost of risk is limited, at 1.7 basis points over a sliding 12 month period.

The half-year was marked by the favourable evolution of cases concerning Heta Asset Resolution AG in Austria and structured loans in France.

On the other hand, Dexia continued to monitor its exposures very carefully, with particular attention paid to certain sectors and counterparties, particularly the Italian banking sector and the Commonwealth of Puerto Rico.

More detailed information is provided in the chapter "Risk management" of this report.

C. Other significant elements

a. Reverse stock split

As announced on 28 January 2016, on 4 March 2016 Dexia SA implemented a reverse stock split, at a ratio of one new share for one thousand existing shares.

More detailed information is provided in the chapter "Shareholder information" of this report.

b. Capital increase of Dexia Crédit Local

On 28 June 2016, Dexia Crédit Local implemented a capital increase of EUR 250 million (including premiums) by the issue of new shares. This was totally subscribed by Dexia SA, the holding company of Dexia Crédit Local.

This capital increase improves Dexia Crédit Local's solvency ratio by approximately 50 basis points. It has no impact at a Dexia Group level on a consolidated basis.

c. Disposal of the Dexia Tower in La Défense

At the beginning of 2016 the Dexia Group decided to sell the CBX Tower in La Défense in a "sale and lease back" transaction, as the reduction of the Group's activity had led to its only being partially occupied.

Following a tender process, the divestment process was concluded on 21 July 2016 with the finalisation and signature of a deed of sale of the CBX Tower to its initial promoter, the company Tishman Speyer. Dexia Crédit Local undertook to continue to occupy part of the Tower for a period of at least 9 years.

In application of the IFRS 5 accounting standard, the building was transferred at its accounting value to "Non-current assets held for sale" in the books on 30 June 2016.

The gain on this disposal, in a pre-tax amount in the order of EUR 50 million, will be booked as at 30 September 2016.

d. Evolution of the Group's governance

The Group's governance has evolved over H1 2016.

On 18 May 2016, at the expiry of the mandate of Karel De Boeck, Wouter Devriendt was appointed by the Dexia SA shareholders' meeting as a director. On that same day, the Board of Directors decided to appoint him as Chief Executive Officer and chairman of the Management Board of Dexia SA. The extraordinary shareholders' meeting decided to increase the composition of the Board of Directors from nine to thirteen members, to enable the Group to comply with the new regulations regarding governance.

On 1 July 2016, Véronique Hugues replaced Pierre Vergnes, having resigned, as executive director and Chief Financial Officer of Dexia SA.

The Management Board of Dexia SA is now composed of Wouter Devriendt, Véronique Hugues, Claude Piret, Johan Bohets and Benoît Debroise.

As the governance of Dexia SA and Dexia Crédit Local is integrated, these changes also apply to Dexia Crédit Local. The effective executives of Dexia Crédit Local are henceforth Wouter Devriendt, Chief Executive Officer, Véronique Hugues and Claude Piret, Executive Vice-Presidents.

2. RESULTS H1 2016

A. Presentation of Dexia SA's condensed consolidated financial statements as at 30 June 2016

Going concern

The condensed consolidated financial statements of the Dexia Group as at 30 June 2016 were established in accordance with the accounting rules applicable to a going concern (cf. section "Notes regarding the Dexia Group's condensed consolidated financial statements as at 30 June 2016").

B. Dexia Group consolidated results for H1 2016

- Net income Group share of EUR -200 million, of which EUR -191 million attributable to accounting volatility elements, against an unfavourable market background
- Net recurring result of EUR -131 million, incorporating EUR -86 million of contributions and levies for the most part booked in Q1, in application of the IFRIC 21 accounting standard
- Positive contribution of EUR 122 million from non-recurring elements, supported by gains realised by active balance sheet management and reversals of provisions for litigation

a. Income statement for the period

During the first half-year 2016, the Dexia Group booked net income Group share of EUR -200 million.

Over the period, net banking income was EUR 10 million. It includes the changes in fair values of derivatives, the CVA, the DVA, the FVA and the own credit risk.

Costs were EUR -202 million. Of that amount, EUR -86 million were due to various contributions and levies.

Considering these elements, gross operating income for the half-year amounted to EUR -191 million.

The cost of risk is limited to EUR -6 million over the first half-year. There was no major movement with regard to provisioning in the first half-year. Net gains and losses on other assets, in an amount of EUR 5 million over the half-year, corresponded to disposals of real estate asset held by the Group in the United States and Italy.

Pre-tax income was EUR -192 million.

Over the half-year, the income tax charge was EUR -21 million.

The result from discontinued operations includes amounts paid or received by the Group within the framework of contractual commitments set on the entity disposals made during recent years. Over the half-year, the total of these amounts was zero.

The income attributable to minority interests was EUR -13 million, leading to a net income Group share of EUR -200 million over the half-year.

CONSOLIDATED STATEMENT OF INCOME – ANC FORMAT

in millions of EUR	Q1 2016	Q2 2016	H1 2016
Net banking income	**78**	**-68**	**10**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-134	-67	-202
Gross operating income	**-56**	**-135**	**-191**
Cost of risk	-8	2	-6
Net gains or losses on other assets	5	1	5
Pre-tax income	**-60**	**-132**	**-192**
Income tax	-3	-18	-21
Result from discontinued operations	-3	3	0
Net income	**-66**	**-147**	**-213**
Minority interests	-11	-2	-13
Net income Group share	**-55**	**-145**	**-200**

b. Analytical presentation of the results for the period

The net income Group share of EUR -200 million is composed of the following elements:

- EUR -131 million attributable to recurring elements(2);
- EUR -191 million associated with accounting volatility elements(3);
- EUR 122 million generated by non-recurring elements(4).

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

ANALYTICAL PRESENTATION OF THE H1 2016 RESULTS OF THE DEXIA GROUP

in millions of EUR	Recurring elements	Accounting volatility elements	Non-recurring elements	Total
Net banking income	**133**	**-191**	**68**	**10**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-250	0	48	-202
Gross operating income	**-117**	**-191**	**116**	**-191**
Cost of risk	-6	0	0	-6
Net gains or losses on other assets	0	0	5	5
Pre-tax income	**-122**	**-191**	**122**	**-192**
Income tax	-21	0	0	-21
Net result from discontinued operations	0	0	0	0
Net income	**-144**	**-191**	**122**	**-213**
Minority interests	-13	0	0	-13
Net income Group share	**-131**	**-191**	**122**	**-200**

(2) Recurring elements: elements associated with the carry of assets such as portfolio income, funding costs, operating charges, cost of risk and taxes.
(3) Accounting volatility elements: elements associated with asset and liability fair value adjustments in particular including the impacts of the IFRS 13 accounting standard (CVA, DVA, FVA) and the valuation of OTC derivatives, the own credit risk (OCR), the variation of the WISE portfolio (synthetic securitisation of a portfolio of enhanced bonds).
(4) Non-recurring elements: elements of an exceptional nature, not liable to be regularly reproduced, in particular including gains and losses on the disposal of holdings and assets, costs and gains associated with litigation, restructuring costs.

b.1. Recurring elements

The net income Group share generated by recurring elements over the first half-year was EUR -131 million.

The net banking income for H1 2016 was EUR 133 million and included:

- The income from asset portfolios, which reached EUR 312 million over the half-year, that amount being in line with previous half-years;
- The funding cost for the first half-year, at EUR -295 million, up on previous periods. This evolution is due to a change in the funding mix, characterised by an increase of State guaranteed funding, under less favourable market conditions. In addition, the non-eligibility of the guaranteed debt issued by Dexia in the European Central Bank's asset purchase programmes tends to increase the cost of such funding;
- Other revenues, which principally include income associated with asset and liability management (ALM) and amounted to EUR 116 million; it was in line with previous half-years.

Over the half-year, costs amounted to EUR -250 million. This amount included EUR -86 million of contributions and levies, including the contribution from Group entities to the Single Resolution Fund (EUR -63 million) and the annual levy for systemic risk (EUR -11 million). The major proportion of these contributions and levies was booked in Q1, applying the IFRIC 21 accounting standard. Excluding these contributions and levies, operating costs are under control and in line with previous quarters.

The cost of risk amounted to EUR -6 million, or 1.7 basis points on average over 12 sliding months compared with total exposure. It confirms the good quality of the Group's asset portfolio.

The income tax charge for the half-year was EUR -21 million, relating to certain local entities of the Group.

b.2. Accounting volatility elements

Over the first half-year, the impact of accounting volatility elements was negative, at EUR -191 million. The context of falling interest rates, widening credit spreads and exchange fluctuations over the period were unfavourable for the Group. These movements were amplified by the uncertainty following the vote on 23 June 2016 in favour of the United Kingdom leaving the European Union, generating severe volatility of market parameters and a flight to quality accelerating the fall of rates and leading to a widening of credit spreads for countries in Southern Europe.

RECURRING ELEMENTS

in millions of EUR	Q1 2016	Q2 2016	H1 2016
Net banking income	60	74	133
o/w revenues from commercial portfolios	*154*	*158*	*312*
o/w funding cost	*-145*	*-150*	*-295*
o/w other revenues	*50*	*66*	*116*
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-148	-102	-250
Gross operating income	-89	-28	-117
Cost of risk	-8	2	-6
Net gains or losses on other assets	0	0	0
Pre-tax income	-97	-25	-122
Income tax	-3	-18	-21
Net income	-100	-43	-144
Minority interests	-11	-2	-13
Net income Group share	-90	-41	-131

ACCOUNTING VOLATILITY ELEMENTS

in millions of EUR	Q1 2016	Q2 2016	H1 2016
Impact in net income Group share (elements booked in net banking income)	-14	-178	-191

NON-RECURRING ELEMENTS			
in millions of EUR	Q1 2016	Q2 2016	H1 2016
Net banking income	32	36	68
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	14	34	48
Gross operating income	46	70	116
Cost of risk	0	0	0
Net gains or losses on other assets	5	1	5
Pre-tax income	51	71	122
Income tax	0	0	0
Result from discontinued operations	-3	3	0
Net income	48	74	122
Minority interests	0	0	0
Net income Group share	48	74	122

Against that background, the evolution of the valuation of derivatives on the basis of an OIS curve is negative, as is the FVA, the CVA and the DVA. Own credit risk is slightly positive in view of the repurchases of liabilities over the period.

The Group made adjustments to its parameters for calculating prices over the half-year, enabling it in particular to take better account of the amortisation profile for underlying derivatives in calculating the CVA and the DVA, and changed the parameters used to calculate the FVA. Of the amount of EUR -191 million booked during the half-year, approximately one quarter is attributable to these evolutions.

b.3. Non-recurring elements

The non-recurring elements booked over the half-year include in particular:

- gains associated with active balance sheet management (EUR 44 million), mainly linked to liability repurchases in Q2;
- payments received within the context of litigation, as well as reversals of provisions for litigation, partially offset by the increase of certain provisions (net impact of EUR 49 million);
- a positive impact resulting from the settlement of charges to be paid (EUR 11 million);
- gains realised on the disposal of Group real estate assets (EUR 6 million).

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

A. Balance sheet and solvency

- Balance sheet total of EUR 235.9 billion as at 30 June 2016, up EUR 5.6 billion on the end of 2015
- Fall of interest rates leading to an increase in the amount of cash collateral paid by the Group and the fair value of assets and derivatives, that more than offset disposals and natural portfolio amortisation
- Dexia's Common Equity Tier 1 ratio at 15.0%: 60% deduction of the non-sovereign AFS reserve from regulatory capital and a sharp fall of risk-weighted assets

a. Half-yearly balance sheet evolution

As at 30 June 2016, the Group's consolidated balance sheet was at EUR 235.9 billion, up by EUR 5.6 billion on 31 December 2015.

The balance sheet total evolved differently in Q1 and Q2.

Q1 saw a sharp increase in the balance sheet total, principally from the effect of the fall of interest rates, despite a reduction of portfolios.

In Q2, the sharp reduction of portfolios and reduced recourse to liquidity placed with central banks reversed the trend despite the persistence of low rates.

In fact, over the half-year, Dexia continued to follow its policy of opportunist asset disposals, in particular on its sovereign exposures (Japan, Poland, Hungary). As at 30 June 2016, at a constant exchange rate, the Dexia asset portfolio amounted to EUR 123 billion, down EUR 7.8 billion since the end of December 2015, of which EUR 5.8 billion associated with natural portfolio amortisation and EUR 2 billion linked to asset disposals and early redemptions.

During H1 2016, at a constant exchange rate, the increase of balance sheet assets is mainly linked to:

- an increase of the fair value of assets and derivatives of EUR 10.3 billion;
- an increase of EUR 6.3 billion in the amount of cash collateral paid by the Group;
- a EUR -7.8 billion reduction of the asset portfolio;
- a fall of EUR -2.4 billion in recourse to liquidity placed with central banks.

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

- a EUR 12.1 billion increase of the fair value of liabilities and derivatives;
- a reduction of EUR -5.9 billion in the stock of market and European Central Bank funding.

The impact of exchange rate variations on the evolution of the balance sheet amounted to EUR -0.5 billion over the half-year.

b. Solvency ratios

As at 30 June 2016, Dexia's Common Equity Tier 1 capital was at EUR 7,481 million, against EUR 8,180 million as at 31 December 2015. This evolution is principally explained by the loss booked over the period, as well as the deduction from regulatory capital of an additional 20% of the AFS reserve associated with non-sovereigns, in line with the schedule defined by the CRD IV directive, or EUR -1,710 million at the end of June 2016.

Gains and losses recognised directly in equity stood at EUR -6.3 billion against EUR -5.4 billion at the end of December 2015. This evolution is mainly explained by the widening of credit spreads, particularly sensitive to Italian, Portuguese and Polish sovereigns, in an environment of severe volatility. As at 30 June 2016, risk-weighted assets were at EUR 50 billion, of which EUR 46.8 billion for credit risk, EUR 2.2 billion for market risk and EUR 1 billion for operational risk. At a credit risk level, the fall induced by the reduction of the asset portfolio, methodological adjustments and rating migrations, particularly on ABS, is partially offset by an increase in the fair value of exposures and an unfavourable exchange effect.

These elements led to a Common Equity Tier 1 ratio of 15.0% and 12.2% respectively for Dexia SA and Dexia Crédit Local at the end of June 2016. It should be noted that the ratio for Dexia Crédit Local is strengthened by the capital increase made by Dexia SA on 28 June 2016 (cf. Section entitled "Significant events and transactions").

As indicated in previous press releases, with the approval of their respective supervisors, Dexia and Dexia Crédit Local apply the exemption allowing them not to take account of the AFS reserve on sovereign securities in calculating solvency ratios[5].

CAPITAL ADEQUACY

in millions of EUR	31/12/15	30/06/16
Common Equity Tier 1	8,180	7,481
Risk-weighted assets	51,414	49,960
Common Equity Tier 1 ratio	15.9%	15.0%

RISK-WEIGHTED ASSETS

in millions of EUR	31/12/15	30/06/16
Credit risk	48,167	46,803
Market risk	2,248	2,157
Operational risk	1,000	1,000
Total	**51,414**	**49,960**

(5) Article 467 (3) of Regulation (EU) 575/2013 of the European Parliament and Council dated 26 June 2013 concerning the prudential requirements applicable to credit institutions and investment undertakings and amending Regulation (EU) 648/2012.

In accordance with the European Central Bank Regulation dated 14 March 2016 , this national discretion will end on 1 October 2016[6]. As from that date, the AFS reserve on sovereign securities will therefore be deducted from the regulatory capital of Dexia and Dexia Crédit Local, in line with the schedule implemented by CRD IV. At the end of June 2016, the amount of Dexia's AFS reserve on sovereign securities was EUR -2.1 billion.

B. Evolution of the Dexia Group's liquidity situation

- Sustained funding activity over the half-year with more than 90% of the long-term funding programme realised as at 30 June 2016
- Prudent liquidity management in anticipation of the vote on the United Kingdom remaining in the European Union: cover for requirements in pounds sterling over several months

The first half-year 2016 was marked by very severe volatility on the financial markets, particularly in the second quarter by the British vote for the United Kingdom to leave the European Union. Against that background, the net amount of collateral posted by the Group as a guarantee on its derivatives reached EUR 37.4 billion as at 30 June 2016, against EUR 32.1 billion at the end of 2015.

With prudent management, the Group armed itself against the potential effects of the referendum result, by covering its funding requirements in pounds sterling over several months. Furthermore, the Group had realised more than 90% of its annual long-term funding programme before the referendum and maintained a liquidity reserve enabling it to cope with the increase in cash collateral to be paid.

Over the half-year, Dexia Crédit Local successfully launched various long-term public transactions in euros, US dollars and pounds sterling, enabling it to raise EUR 7.5 billion, and executed an additional EUR 3.3 billion in private placements. The average maturity of this funding is 4.3 years. Short-term funding activity in the guaranteed format was also sustained, both in euros and in US dollars. The short-term funding raised by the Group has a relatively long average maturity, of 7.1 months.

As at 30 June 2016, secured market funding amounted to EUR 63.8 billion, down EUR 3.5 billion compared to the end of 2015. The stock of covered bonds (Pfandbriefe issued by Dexia Kommunalbank Deutschland) amortised by EUR 1 billion over the period. The repo activity remained sustained over the half year, particularly on short-term maturities. For long-term maturities, the outstanding was slightly down. This trend is explained by the renewal in July of transactions which matured in June and by the reduction of the stock of assets available for this activity.

Finally, Dexia continued to reduce its use of European Central Bank funding by EUR 8.6 billion over the half-year, taking total outstanding to EUR 7.4 billion as at 30 June 2016, of which EUR 6.1 billion in the form of LTRO and EUR 1.3 billion in the form of MRO.

As a consequence, globally outstanding guaranteed debt was up, at EUR 68.2 billion as at 30 June 2016 against EUR 60.9 billion at the end of December 2015, to compensate for the reduction of Central Bank funding and to fund the increase in cash collateral paid by the Group to its derivative counterparties.

As at 30 June 2016, the Group's Liquidity Coverage Ratio (LCR) was 68%.

On that same date, the Dexia Group had a liquidity buffer of EUR 14 billion, of which EUR 12.3 billion in the form of assets eligible to European Central Bank refinancing.

(6) Regulation (EU) 2016/445 of the European Central Bank dated 14 March 2016 relating to the exercise of options and discretionary powers provided by Union Law (ECB/2016/4).

CREDIT RISK

Credit risk is expressed as Exposure at Default (EAD), and is one of the parameters used to calculate capital requirements in application of Regulation (EU) No 575/2013.

Exposure at Default (EAD) corresponds to the best estimate of exposure to credit risk in the event of default. It corresponds to the book value of assets, gross of provisions, to the market value of derivatives and regulatory additions and to the nominal amount of off-balance-sheet items, valued using a credit conversion factor (CCF).

This definition differs from the approach retained to calculate capital requirements. The regulatory metric has been adapted in particular to enable the treatment of provisions for the purposes of this report to be standardised.

As at 30 June 2016, Dexia's exposure to credit risk was EUR 179.2 billion, compared to EUR 181.8 billion at the end of December 2015. The fall linked to natural portfolio amortization, asset disposals and exchange rate variations (US dollar, yen, pound sterling) is offset by an increase in the fair value of assets, as a result of widening credit spreads.

BREAKDOWN BY GEOGRAPHIC REGION

in millions of EUR	31/12/15	30/06/16
Italy	27,244	27,396
United Kingdom	25,821	26,916
United States	28,753	26,892
France	26,617	25,081
Germany	22,308	22,672
Spain	16,933	15,868
Japan	7,560	8,787
Portugal	4,193	4,093
Central and Eastern Europe	2,895	2,429
Canada	2,717	2,864
Belgium	2,204	2,182
Austria	1,575	1,559
Scandinavian countries	1,471	1,280
Hungary	946	687
Netherlands	499	567
Switzerland	520	592
Turkey	496	443
Ireland	160	101
Greece	153	146
Luxembourg	125	104
Southeast Asia	845	907
South and Central America	552	509
Others	7,203	7,159
Total	**181,792**	**179,235**

Exposure was divided EUR 81 billion in loans and EUR 82 billion in bonds.

Exposures are for the most part concentrated in the European Union (71%) and the United States (15%).

As at 30 June 2016, exposures remained predominantly concentrated in the local public sector and sovereigns (69%), considering Dexia's historic activity. The evolution of exchange rates (US dollar, yen and pound sterling) and the widening of credit spreads explain the increase of exposures to the local public sector (+2%). The sovereign portfolio posted a fall of 9% in view of the fall of deposits with the Federal Reserve (FED) and the Banque de France. Furthermore, exposure to Financial Institutions was EUR 24 billion, principally composed of repos and covered bonds.

BREAKDOWN BY TYPE OF COUNTERPARTY

in millions of EUR	31/12/15	30/06/16
Local public sector	94,426	96,018
Central governments	29,511	26,958
Financial institutions	24,781	24,496
Project finance	14,734	14,471
Corporate	8,463	8,179
ABS/MBS	8,039	7,378
Monolines	1,837	1,733
Individuals, SME and self-employed	2	2
Total	**181,792**	**179,235**

The average quality of the Dexia credit portfolio remains high, with 89% of exposures rated "investment grade" as at 30 June 2016.

BREAKDOWN BY RATING (INTERNAL RATING SYSTEM)

	31/12/15	30/06/16
AAA	16.5%	16.9%
AA	22.0%	20.3%
A	21.7%	23.8%
BBB	27.8%	28.4%
Non investment grade	10.7%	9.3%
D	1.1%	1.1%
Not rated	0.2%	0.2%
Total	**100%**	**100%**

GROUP SECTOR EXPOSURE TO CERTAIN COUNTRIES							
in millions of EUR	Total	o/w local public sector	o/w corporate and project finance	o/w financial institutions	o/w ABS/MBS	o/w sovereign exposures	o/w monolines
Italy	27,396	11,127	958	744	117	14,451	0
United Kingdom	26,916	13,160	9,359	2,002	1,924	65	405
United States	26,892	13,025	1,029	4,587	4,366	2,557	1,328
France	25,081	16,496	4,104	3,438	0	1,043	0
Germany	22,672	18,647	311	3,486	4	224	0
Spain	15,868	7,596	2,232	4,896	551	593	0
Japan	8,787	6,482	0	1,345	0	960	0
Portugal	4,093	1,864	182	18	90	1,939	0
Poland	1,534	3		0	0	1,531	0
Hungary	687	24	24	0	0	638	0
Turkey	443	5	3	434	0	0	0
Greece	146	56	82	0	8	0	0
Ireland	101	0	8	34	59	0	0

Particular attention is paid to countries listed in the table above in view of the significant amounts of exposure or a situation representing a potential risk. The principal evolutions and significant facts for these sectors and countries in the first half-year 2016 are noted in the following paragraphs.

Dexia Group commitments to sovereigns

Dexia SA commitments to sovereigns are essentially concentrated on Italy and to a lesser degree the United States, Portugal, France, Poland and Japan.

The financial situation of European countries and the United States has improved, driven by a favourable economic situation in the first half-year 2016. This improvement was nonetheless weakened by a tense political context, particularly in Europe, where the start of the year was marked by the refugee crisis and the referendum on the United Kingdom remaining in the European Union (cf. chapter entitled "Significant events and transactions"). It is to be noted that the attempted coup in Turkey exposes the country to political instability and could have negative consequences on economic activity, particularly tourism.

In Japan, the fiscal and monetary measures put in place by Prime Minister Shinzo Abbe are not providing the expected results. Further overspending could occur this year, whilst inflation and economic growth remain extremely weak.

Dexia Group commitments to the local public sector

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

The financial situation of local authorities remains globally satisfactory, despite the economic and financial situation, which tends to increase social expenditure and limit fiscal returns. At the same time, in Europe, policies to reduce public expenditure, particularly via the fall in the level of transfers from central states, reduce the financial flexibility of local authorities. Confronted by such a situation, the latter have for some years been committed to structural reforms and simplification. Finally, in the most difficult instances, they can benefit from safeguarding mechanisms or support funds enabling them to honour their commitments, as illustrated by the support mechanisms in Spain and Italy.

Principal points for attention

- Catalonia

  The Region of Catalonia (exposure of EUR 2.2 billion) has been struggling with significant debts for several years, against a political background marked by the independence movement gaining ground. In that political context, the Spanish State has reaffirmed its support for Catalonia in the event of financial difficulty, particularly via the support funds put in place in Spain.

- **Puerto Rico**

  The situation of the Commonwealth of Puerto Rico, which is experiencing major financial difficulties, limiting its ability to meet its commitments, has also been a matter to which the Dexia Group has paid great attention. Several plans to restructure the Commonwealth's debt have been put to creditors, providing relief in the order of 15% to 50%, and are currently under discussion. On 1 July 2016, the Commonwealth had not been able to fulfil close to one half of its debt service obligations, an amount of EUR 911 million on a maturity of EUR 2 billion still unpaid. The Group's exposure to public enterprises associated with the Commonwealth of Puerto Rico amounted to EUR 441(1) million as at 30 June 2016, of which 96% is covered by good quality monolines. The residual amount, guaranteed by monolines of lower quality, was impaired. Moreover, the Group booked a provision to cover the risk of acceleration of payments on some enhanced outstandings, which would result in losses on associated derivatives.

  Total provisions on the public enterprises associated to the Commonwealth of Puerto Rico amounted to of EUR 41 million (USD 45.5 million).
- **Chicago Board of Education (CBOE)**

  The CBOE has experienced financial difficulties due to the very high level of debt and the under-funding of pension funds, those difficulties being compounded by the continuing fall of student registrations. On the other hand, the CBOE retains access to the financial markets and in February 2016 realised an issue in an amount of USD 725 million.

  Independently, the debt service of the CBOE until March 2017 is already sequestered on accounts specifically dedicated to such use. Dexia is exposed to the CBOE in an amount of EUR 472 million at the end of June 2016.
- **Structured loans in France**

  The phase of subscription to aid granted by the support fund for local authorities and the hospital sector which had taken out sensitive structured loans ended in July 2016. All the borrowers which held loans "excluded from the Gissler Charter" on the balance sheet of Dexia Crédit Local have accepted the aid proposed and have signed a settlement agreement with the Group, sent to the State and closing any litigation which has arisen or is liable to arise. These agreements cover all the loans to public clients the payments of which had been degraded.

  At the same time, a large number of loans not covered by the support fund have been desensitised.

  As a consequence, the outstanding on sensitive structured loans on the Dexia balance sheet amounted to EUR 783 million as at 30 June 2016, down 20% on the end of 2015 and 60% on May 2012. The number of cases in which Dexia Crédit Local is involved has also fallen sharply, from 147 at the end of 2015 to 70 as at 30 June 2016.

Dexia Group commitments on project finance and corporates

The portfolio of project finance and corporate loans amounted to EUR 22.7 billion as at 30 June 2016, down 2% on the end of 2015, on the one hand as a result of the weakening of the pound sterling during the first half-year, more particularly after the British vote in favour of an exit from the European Union, which reduces the counter-value in euro of British exposures, representing approximately 41% of the project finance and corporate loans portfolio, and on the other hand in view of natural portfolio amortisation and early redemptions. This portfolio is composed 64% of project finance(2), the balance in corporate finance, such as acquisition funding, commercial transactions or corporate bonds.

As at 30 June 2016, the project finance portfolio amounted to EUR 14.5 billion. It is composed 54% in Public-Private Partnerships (PPP), principally in the United Kingdom and in France, 11% in projects in the energy sector, the majority in the field of renewable energies, and 18% in projects presenting a traffic risk. 70% of the portfolio is in Western Europe, 22% in the United States, Canada and Australia. The portfolio is 70% rated "investment grade".

The situation concerning certain projects is monitored carefully. In particular, the change to the Spanish regulatory framework on renewable energies adopted on 16 June 2014, providing the revision of electricity purchase tariffs, had an unfavourable impact on a part of the portfolio of renewable projects in Spain, principally photovoltaic projects, and in some cases necessitated debt restructuring on that date, while negotiations are still in progress on other projects. Taking this situation into account, the Group booked specific impairments on certain of them, resulting at the same time in a reduction of the sector provision established in 2014 to cover this risk.

The corporate loan portfolio was approximately EUR 8.2 billion at the end of June 2016. It consists 65% of companies in the utilities sector (water, environment, distribution and transmission of energy or gas) and 25% of companies in the infrastructure sector (motorway operators, airports, ports and car parks). 87% of the portfolio is situated in Western Europe, 12% in the United States, Canada and Australia. 95% of the portfolio is rated "investment grade".

(1) EAD amount corresponding to USD 430 million of gross accounting value.
(2) Transactions without recourse to their sponsors the redemption of which is only on the basis of their own cash-flows and strongly secured in favour of the bank, for example via a pledge on assets and contracts or a limitation of dividends.

The Group exposure to the oil sector, under pressure from falling prices, amounted to EUR 276 million. It relates principally to project finance, the resilience of which when oil prices fall is deemed satisfactory, and to a lesser extent with leading corporates. Some individual files have been impaired.

Dexia Group commitments on ABS

As at 30 June 2016, Dexia's ABS portfolio amounted to EUR 7 billion, down EUR 0.5 billion on the end of 2015, due to the redemption of several positions.

This portfolio consists of EUR 4.1 billion in US government student loans, which present a rather long amortisation profile and good credit quality, benefiting from the US State guarantee. The balance is principally in residential mortgage backed securities (RMBS), representing an amount of EUR 1 billion, of which EUR 0.5 billion in Spain.

The quality of the ABS portfolio remained stable overall, with 95% of the portfolio rated "investment grade" at the end of June 2016, almost all of the tranches in which Dexia invested being senior level.

Dexia Group commitments on monolines

Dexia has indirect exposure to monolines through unconditional and irrevocable financial guarantees that insure the timely payment of principal and interest on certain bonds and loans. Actual claims against monoline insurers only become due if actual defaults occur on the underlying assets.

As at 30 June 2016, the Dexia portfolio included EUR 19.6 billion of assets insured by monolines, of which 75% of assets were insured by monolines rated "investment grade" by one or more external rating agencies. All but two insurers (FGIC and Ambac's Segregated Account) continue to pay all claims on time and in-full.

Dexia Group commitments on financial institutions

Dexia commitments on financial institutions amounted to EUR 24 billion as at 30 June 2016, down slightly by EUR 0.3 billion since December 2015.

These commitments are 73% composed of bonds, covered bonds and repos. The balance includes exposures linked to loans to financial institutions and derivatives.

Dexia SA exposure is concentrated 19% in the United States and 70% in Europe, principally in Spain (20%), Germany (14%), France (14%) and the United Kingdom (8%).

The portfolio's credit quality remained stable overall in the first half-year 2016.

A memorandum of understanding was signed on 18 May 2016 between the Republic of Austria and the creditors of Heta Asset Resolution AG (Heta), the debt of which was partially cancelled within the framework of a bail-in imposed by the Austrian regulator on 10 April 2016. Dexia Kommunalbank Deutschland AG, the German subsidiary of Dexia with a nominal exposure to Heta of EUR 395 million, is a party to the agreement. The memorandum of understanding provides the principle of an exchange of securities issued by Heta and held by the creditors against zero-coupon bonds with a maturity of approximately 13.5 years, issued by the Land of Carinthia via a specific entity, and which will benefit from the explicit guarantee of the Republic of Austria. Finalisation of the offer and the effective implementation of the memorandum of agreement are expected in the second half-year 2016. That implementation is subject to various conditions being met and must also be the object of technical discussions and negotiations between the parties. Under the terms of the memorandum of agreement, Dexia could post a positive impact in its books in the order of EUR 130 to 140 million.

The vulnerability of some actors of the Italian banking sector, confirmed by the outcome of the stress test performed by the EBA, which was published on 29 July 2016, remains a matter for attention. The Group's exposure to Italian banks amounted to EUR 270 million(3). It is predominantly on banks of good credit quality. The exposure to banks rated "non-investment grade" was EUR 10 million, mostly collateralised. Aside this exposure on the banking sector, the Group remains largely exposed to the Italian sovereign and thus sensitive to any contagion scenario.

Furthermore, the outcome of the stress test shows a vulnerability of the Irish banking sector. Dexia's exposure to Irish banks amounted to EUR 34 million, of which EUR 2.6 million on banks part of the sample.

(3) The exposure on the Italian banking sector of EUR 744 million mentioned in the table on page 15 includes the exposure on clearing houses, for an amount of EUR 358 million, as well as EUR 116 million on special purpose vehicles.

Impairments on counterparty risk – Asset quality

The first half-year 2016 was marked by an increase of the stock of impaired assets by EUR 12 million, as well as an increase of specific impairments by EUR 17 million. This is explained in particular:

- by the disposal of subordinated securities during the second quarter;
- by the allocation to provisions of a receivable on the oil sector in Brazil;
- by the allocation to additional provisions of receivables associated with the motorway sector in Spain.

At the same time, Dexia continued its restructuring of impaired assets, particularly with regard to the financing of wind and solar farms in Spain and continued with the establishment of a support fund for local public authorities in Spain ("Fondo de Ordenacion") allowing the reversal of impairments booked on several Spanish municipalities.

As a consequence, the coverage ratio amounted to 34.9% as at 30 June 2016.

In addition to specific impairments, Dexia has collective (statistical and sector) provisions, which remained stable over the half-year, at EUR 422 million as at 30 June 2016.

The underlying evolution is due principally to the entry into the calculation base for collective provisions of two heavily contributing files in relation to a Turkish bank and a port operator in the United States, offset by exits from the base following defaults, a fall in the collective provision concerning ABS resulting from an update of the calculation base and the natural amortisation and disposal of assets during the half-year.

MARKET RISK

To ensure that market risk is monitored effectively, Dexia has developed a framework based on the following components:

- A comprehensive system for market risk measurement, built on historical or probability models (VaR: Value at Risk);
- A structure of limits and procedures governing risk-taking, consistent with the end-to-end risk measurement and management process.

Value at Risk

At the end of June 2016, total VaR consumption amounted to EUR 8.7 million, against EUR 13.7 million at the end of 2015, and remained lower than the global limit of EUR 40 million.

Sensitivity of portfolios classified as "Available for Sale" to the evolution of credit spreads

The sensitivity in economic value of bond portfolios to interest rate fluctuations is extremely limited, as interest rate risk is hedged. Furthermore, a major proportion of the bond portfolio, initially classified as "Available for sale", was reclassified as "loans and receivables". As a consequence, the AFS reserve associated with these securities has been frozen and is insensitive to market evolutions.

For bond portfolios classified as AFS, the sensitivity of the fair value (and of the AFS reserve) to an increase of credit spread by one basis point was EUR -17 million as at 30 June 2016.

ASSET QUALITY

in millions of EUR	31/12/15	30/06/16
Impaired assets	1,532	1,544
Specific impairments(4)	556	539
Coverage ratio(5)	36.3%	34.9%
Collective provisions	422	422

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

TRANSFORMATION RISK

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

Management of interest rate and exchange rate risk

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

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

The sensitivity of long-term ALM was EUR +9.5 million as at 30 June 2016 for the entire Dexia Group, compared with EUR +2.2 million as at 31 December 2015. This is in line with the ALM strategy, which seeks to minimise income statement volatility.

in millions of EUR	30/06/16
Sensitivity	+9.5
Limit	±80

Management of liquidity risk

The management of liquidity risk and its direction is under the direct responsibility of the Management Board.

Liquidity projections at 4 weeks as well as the 12-month funding plan are realised, based on different scenarios.

Furthermore, on a monthly basis, Dexia measures and sends to its various regulators, the European Central Bank, the National Bank of Belgium and the French Autorité de Contrôle Prudentiel et de Résolution, the Liquidity Coverage Ratio (LCR) at a Group level and for its main banking subsidiaries. This ratio, defined by the Delegated Act of October 2014 completed by the technical standards of June 2015, aims to measure the cover of liquidity requirements at 30 days in a stressed environment by a volume of liquid assets. As at 30 June 2016, the Dexia Group LCR was 68%.

OPERATIONAL RISK AND IT SYSTEMS SECURITY

The business plan identifies operational risk management as one of the pillars of Dexia strategy, within the context of its orderly resolution.

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

Incidents resulting in a loss greater than EUR 1,000 were registered in the first half-year 2016. Among those incidents, one incident, listed in the category "Transaction execution", resulted in a loss of almost EUR 1 million.

In 2016 the Dexia Group continued to adapt its structure and its operational processes to its orderly resolution mandate. This phase of resolution is by its nature propitious to the development of operational risks, particularly through elements such as the departure of key staff, a possible de-motivation of staff members or the modification of treatment processes when operational applications have to be replaced or duplicated.

Moreover, at Dexia psycho-social risks are monitored carefully, accompanied by preventive and assistance programmes.

STRESS TESTS

Dexia regularly performs stress tests aimed, in an adverse shock situation, at measuring the sensitivity of the Bank in terms of expected losses, risk-weighted assets, liquidity requirements or capital requirements.

Dexia is not on the list of banks retained for the performance of stress tests organised by the EBA in 2016.

LITIGATION

Like many financial institutions, Dexia is involved as defendant or claimant in certain investigations and disputes.

The most significant developments during the second quarter of 2016 related to pending litigation or investigations in which a Dexia Group entity is named as defendant are summarised below.

The following updated data should be read in conjunction with the corresponding summaries given in the Dexia Annual Report 2015 and in the Dexia Interim Statement Q1 2016 (available at *www.dexia.com*).

On the basis of the information available to Dexia as at 30 June 2016, events or developments that occurred during the second quarter of 2016 in pending regulatory investigations and disputes which are mentioned in the Dexia Annual Report 2015 or in the Dexia Interim Statement Q1 2016, but for which no update is provided below, are not expected to have a material impact on the Group's financial situation as at that date, or do not allow Dexia to assess whether they may or may not have such a material impact on the Group's financial situation.

Continued decrease of Dexia Crédit Local's litigation relating to structured loans subscribed by French municipalities

The combined effects of the support fund set up by French authorities to assist municipalities to pay their credit obligations in relation to structured loans and several legal decisions supporting the banks' views have contributed to a continued reduction of the number of disputes in which Dexia Crédit Local is involved. As at 30 June 2016, there were legal proceedings with 70 clients, compared to 147 cases as at 31 December 2015 and a peak of 229 on 31 October 2014.

Negative outcome of Spousal Consent cases in the Netherlands

A Court of Appeal in the Netherlands rejected Dexia Nederland's further arguments and strictly applied the decision of the Supreme Court in October 2015 on spousal consent matters. Dexia Nederland is assessing the next steps to be taken towards its former relevant client base in view of this new decision.

Positive outcome in Dexia financial communication litigation

The Brussels Court of First Instance ruled, in the last pending civil case relating to Dexia's allegedly incorrect financial communication, that there was no shortcoming in Dexia's financial communication in 2011.

Settlement in certain bid rigging cases

Dexia settled certain outstanding bid rigging matters with claimants, thereby ending litigation cases naming the company that were still ongoing before US federal courts.

RATINGS

RATINGS AS AT 16 AUGUST 2016	Long term	Outlook	Short term
Dexia Crédit Local			
Fitch	BBB+	Stable	F2
Moody's	Baa3	Stable	P-3
Standard & Poor's	BBB	Stable	A-2
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	-

MAIN DEXIA SHAREHOLDERS AS AT 30 JUNE 2016

Percentage of existing shares in Dexia SA	
Belgian Federal Government through the Federal Holding and Investment Company	50.02%
French Government	44.40%
Institutional, individual and employee shareholding	5.58%

PRINCIPAL RELATED-PARTY TRANSACTIONS

There have not been any significant transactions with related parties during the first half-year 2016. Detailed information is provided in the Dexia annual report 2015 (Note 4.4. to the consolidated financial statements on page 121).

NUMBER OF SHARES

As announced on 28 January 2016, on 4 March 2016 Dexia SA implemented a reverse stock split, at a ratio of one new share for one thousand existing shares, in accordance with the resolution passed by the extraordinary shareholders' meeting held on 20 May 2015.

In order to compensate the holders of fractions of new shares, these were consolidated to create new shares, which were disposed of on the market. Moreover, shareholders were invited to sell or acquire Dexia shares so as to be in possession, at the time of registration preceding the consolidation, of a number of shares corresponding to a multiple of one thousand. The average net sale price per share was EUR 21.01. The holders of fractions therefore received cash compensation of EUR 0.021 for each (former) share.

There are henceforth 30,896,352 shares issued by Dexia SA (of which 1,948,984 shares in Class A and 28,947,368 shares in Class B).

in millions of EUR	30/06/15	31/12/15	30/06/16
Number of shares	30,896,352,895	30,896,352,895	30,896,352
Of which class A shares	*1,948,984,474*	*1,948,984,474*	*1,948,984*
Of which own shares	*324,633*	*324,633*	*324*
Of which class B shares[(1)]	*28,947,368,421*	*28,947,368,421*	*28,947,368*
Subscription rights (warrants)	32,096,802	32,096,802	22,197,333
Total number of shares and subcription rights[(2)]	**30,928,449,697**	**30,928,449,697**	**53,093,685**

(1) The description of class B shares is given in the Dexia annual report 2015 on page 126.
(2) For more details, consult the regulated information at *www.dexia.com*.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

ASSETS *in millions of EUR*		30/06/15	31/12/15	30/06/16
I.	Cash and central banks	8,278	4,835	3,296
II.	Financial assets at fair value through profit or loss	22,032	20,176	22,203
III.	Hedging derivatives	6,802	6,672	7,710
IV.	Financial assets available for sale	23,685	22,257	20,468
V.	Interbank loans and advances	8,468	7,815	7,831
VI.	Customer loans and advances	132,360	127,876	128,181
VII.	Fair value revaluation of portfolio hedges	1,634	1,696	2,175
VIII.	Financial assets held to maturity	276	200	242
IX.	Current tax assets	32	41	31
X.	Deferred tax assets	32	35	35
XI.	Accruals and other assets	36,980	38,346	43,395
XII.	Non current assets held for sale	14	12	276
XV.	Tangible fixed assets	327	293	15
XVI.	Intangible assets	24	27	29
Total assets		**240,944**	**230,281**	**235,887**

LIABILITIES *in millions of EUR*		30/06/15	31/12/15	30/06/16
I.	Central banks	26,312	15,932	7,350
II.	Financial liabilities at fair value through profit or loss	23,872	22,779	23,706
III.	Hedging derivatives	30,250	29,978	39,764
IV.	Interbank borrowings and deposits	47,483	48,780	46,283
V.	Customer borrowings and deposits	8,594	9,399	10,518
VI.	Debt securities	92,755	91,532	97,573
VII.	Fair value revaluation of portfolio hedges	192	170	152
VIII.	Current tax liabilities	4	2	13
IX.	Deferred tax liabilities	175	159	164
X.	Accruals and other liabilities	6,579	6,135	6,078
XIII.	Provisions	369	376	356
XIV.	Subordinated debt	501	492	486
Total Liabilities		**237,086**	**225,734**	**232,443**
XV.	**Equity**	**3,858**	**4,547**	**3,444**
XVI.	Equity, Group share	3,421	4,118	3,038
XVII.	Capital stock and related reserves	2,486	2,486	2,486
XVIII.	Consolidated reserves	6,864	6,907	7,070
XIX.	Gains and losses directly recognised in equity	(5,933)	(5,438)	(6,318)
XX.	Net result of the period	4	163	(200)
XXI.	Minority interests	437	429	406
Total liabilities and equity		**240,944**	**230,281**	**235,887**

The notes on pages 29 to 40 are an integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

in millions of EUR		30/06/15	30/06/16
I.	Interest income	5,475	5,017
II.	Interest expense	(5,346)	(4,903)
III.	Commission income	10	11
IV.	Commission expense	(8)	(8)
V.	Net gains (losses) on financial instruments at fair value through profit or loss	318	(173)
VI.	Net gains (losses) on financial assets available for sale	19	49
VII.	Other income	17	41
VIII.	Other expenses	(48)	(24)
IX.	**Net banking income**	**437**	**10**
X.	Operating expenses	(232)	(193)
XI.	Depreciation, amortisation and impairment of tangible fixed assets and intangible assets	(11)	(8)
XII.	**Gross operating income**	**194**	**(191)**
XIII.	Cost of risk	(160)	(6)
XIV.	**Operating income**	**34**	**(197)**
XVI.	Net gains (losses) on other assets	0	5
XVIII.	**Net result before tax**	**34**	**(192)**
XIX.	Income tax	(19)	(21)
XX.	Result from discontinued operations, net of tax	0	0
XXI.	**Net income**	**15**	**(213)**
XXII.	Minority interests	11	(13)
XXIII.	**Net income, group share**	**4**	**(200)**
Net income from continuing operations		**15**	**(213)**
Minority interests		11	(13)
Net income from continuing operations, group share		4	(200)
Earnings per share, Group share *(in EUR)*[1]			
	Basic	1.83	(102.63)
	- from continuing operations	*1.83*	*(102.70)*
	- from discontinued operations	*0.00*	*0.07*
	Diluted	0.12	(102.63)
	- from continuing operations	*0.12*	*(102.70)*
	- from discontinued operations	*0.00*	*0.07*

(1) Earnings per share have been revised due to the reverse stock split of the shares of Dexia SA (Class A and Class B) implemented at a ratio of one new share (ISIN BE0974290224) for one thousand existing shares (ISIN BE0003796134).

The notes on pages 29 to 40 are an integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in millions of EUR	30/06/15 Before-tax amount	30/06/15 Tax (expense) benefit	30/06/15 Net-of-tax amount	30/06/16 Before-tax amount	30/06/16 Tax (expense) benefit	30/06/16 Net-of-tax amount
Net income			**15**			**(213)**
Elements reclassified or likely to be subsequently reclassified in net income						
- Cumulative translation adjustments	83		83	(18)		(18)
- Revaluation of financial assets available for sale or reclassified as loans and advances	433	(8)	425	(570)		(570)
- Revaluation of hedging derivatives	207		207	(299)		(299)
Elements that will never be reclassified or likely to be subsequently reclassified in net income						
- Actuarial gains and losses on defined benefit plans				(4)		(4)
Total unrealised or deferred gains and losses through equity	**723**	**(8)**	**715**	**(891)**		**(891)**
Net result and unrealised or deferred gains and losses through equity			**730**			**(1 104)**
of which, Group share			710			(1 080)
of which, Minority interests			20			(24)
Net result and unrealised or deferred gains and losses through equity from continuing activities	**757**	**(27)**	**730**	**(1 083)**	**(21)**	**(1 104)**
of which, Group share			710			(1 080)
of which, Minority interests			20			(24)

The notes on pages 29 to 40 are an integral part of these condensed consolidated financial statements.

– CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2016 –

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in millions of EUR	Capital stock and related reserves				Consolidated Reserves	Gains and losses directly recognised in equity					Net income, Group share	Equity, Group share	Minority interests			Equity
	Capital stock	Related reserves	Treasury shares	Total		Change in fair value of financial assets available for sale or reclassified as loans and advances, net of taxes	Change in fair value of cash flow hedges, net of taxes	Actuarial gains and losses on defined benefit plans	Translation adjustments	Total			Capital and reserves	Gains and losses directly recognised in equity	Total	
AS AT 31 DECEMBER 2014	500	1,990	(4)	2,486	7,470	(5,216)	(1,450)	(5)	32	(6,639)	(606)	2,711	455	(38)	417	3,128
Movements during the period																
- Appropriation of net income 2014					(606)						606					
- Subtotal of shareholders related movements					**(606)**						**606**					**0**
- Translation adjustments[1]									75	75		75		8	8	83
- Changes in fair value of financial assets available for sale, through equity[1]						388				388		388		2	2	390
- Changes in fair value of derivatives through equity[1]							223			223		223				223
- Changes in fair value of financial assets available for sale or reclassified as loans and advances, through profit or loss[1]						35				35		35		(1)	(1)	34
- Changes in fair value of derivatives through profit or loss[1]							(15)			(15)		(15)				(15)
- Subtotal of changes in gains and losses directly recognized in equity						**423**	**208**		**75**	**706**		**706**		**9**	**9**	**715**
- Net income for the period											4	4	11		11	15
AS AT 30 JUNE 2015	500	1,990	(4)	2,486	6,864	(4,793)	(1,242)	(5)	107	(5,933)	4	3,421	466	(29)	437	3,858
AS AT 31 DECEMBER 2015	500	1,990	(4)	2,486	6,907	(4,337)	(1,224)	0	123	(5,438)	163	4,118	446	(17)	429	4,547
Movements during the period																
- Appropriation of net income 2015					163						(163)					0
- Subtotal of shareholders related movements					**163**						**(163)**					**0**
- Translation adjustments									(17)	(17)		(17)		(1)	(1)	(18)
- Changes in fair value of financial assets available for sale, through equity						(691)				(691)		(691)		(9)	(9)	(700)
- Changes in fair value of derivatives through equity							(189)			(189)		(189)		1	1	(188)
- Changes in fair value of financial assets available for sale or reclassified as loans and advances, through profit or loss						132				132		132				132
- Changes in fair value of derivatives through profit or loss							(112)			(112)		(112)				(112)
- Changes in actuarial gains and losses on defined benefit plans								(3)		(3)		(3)		(1)	(1)	(4)
- Subtotal of changes in gains and losses directly recognized in equity						**(559)**	**(301)**	**(3)**	**(17)**	**(880)**		**(880)**		**(10)**	**(10)**	**(890)**
- Net income for the period											(200)	(200)	(13)		(13)	(213)
AS AT 30 JUNE 2016	500	1,990	(4)	2,486	7,070	(4,896)	(1,525)	(3)	106	(6,318)	(200)	3,038	433	(27)	406	3,444

(1) Figures 2015 have been restated

The notes on pages 29 to 40 are an integral part of these condensed consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

in millions of EUR	30/06/15	30/06/16
Cash flow from operating activities		
Net income after income taxes	15	(213)
Adjustment for:		
- Depreciation, amortization and other impairment	10	8
- Impairment losses (reversal impairment losses) on bonds, equities, loans and other assets	264	(14)
- Net (gains) or losses on investments	(1)	(2)
- Net increases (net decreases) in provisions	(105)	(30)
- Unrealised (gains) or losses	(430)	48
- Deferred taxes	23	4
Changes in operating assets and liabilities	4,259	(940)
Net cash provided (used) by operating activities	**4,035**	**(1,139)**
Cash flow from investing activities		
Purchase of fixed assets	(6)	(15)
Sale of fixed assets	0	7
Acquisitions of unconsolidated equity shares	(4)	0
Sales of unconsolidated equity shares	5	14
Net cash provided (used) by investing activities	**(5)**	**6**
Net cash provided (used) by financing activities	**0**	**0**
Net cash provided	**4,030**	**(1,133)**
Cash and cash equivalents at the beginning of the period	**5,133**	**5,467**
Cash flow from operating activities	4,035	(1,139)
Cash flow from investing activities	(5)	6
Cash flow from financing activities	0	0
Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents	219	(49)
Cash and cash equivalents at the end of the period	**9,382**	**4,285**
Additional information		
Income tax paid	2	4
Dividends received	1	2
Interest received	5,728	5,267
Interest paid	(6,001)	(5,209)

The notes on pages 29 to 40 are an integral part of these condensed consolidated financial statements.

NOTE I. ACCOUNTING PRINCIPLES AND RULES GOVERNING THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – CHANGES IN SCOPE OF CONSOLIDATION – SIGNIFICANT EVENTS OF H1 2016 – POST-BALANCE-SHEET EVENTS

ACCOUNTING PRINCIPLES AND RULES GOVERNING THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

General information

The Group's parent company is Dexia, a limited company under Belgian law with its shares listed on Euronext Brussels and Paris as well as the Luxembourg Stock Exchange. Its registered office is located at Place du Champ de Mars 5 – B-1050 Brussels (Belgium).

These condensed consolidated financial statements were authorised for issue by the Board of Directors on 16 August 2016.

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's condensed consolidated financial statements have been prepared in accordance with IFRS endorsed by the European Commission up to 30 June 2016 and applicable as from 1 January 2016.

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 2015 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 Group".

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

Like as at 31 December 2015, the condensed consolidated financial statements of Dexia SA as at 30 June 2016 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions in the business plan underlying the resolution of the Dexia Group, listed below.

- The business plan was constructed from market data observable at the end of September 2012; the underlying macroeconomic assumptions are reviewed as part of the semi-annual reviews of the entire plan.
  In particular, the updates made on the basis of data available as at 31 December 2015 and validated by the Board of Directors of Dexia SA on 16 August 2016 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments to date, such as the final version of the CRD IV Directive and the implementation of the IFRS 9 accounting standard from 2018, based on assumptions known to date.
  The revised business plan led to adjustments being made in relation to the original plan, but they do not raise any issues regarding the trajectory of the Group's resolution over the long term.
- The business plan assumes maintenance of the banking licences of various entities as well as the rating of Dexia Crédit Local.
- It relies on a robust funding capacity, which is dependent on investor appetite for the debt guaranteed by Belgium, France and Luxembourg and the Group's ability to raise secured funding.
  In this respect, since the approval of the Orderly Resolution Plan in December 2012, the Group's funding structure has benefited from an increase in market, secured or guaranteed funding, at a lower cost than anticipated in the business plan, for larger volumes and longer maturities. This enabled the Group to reduce its recourse to central bank funding and to exit the exceptional funding mechanisms put in place in 2012. By way of prudent liquidity management, Dexia also established liquidity reserves with the aim in particular to deal with an increase in the amount of cash collateral[1] posted to its derivatives counterparties. Furthermore, the Group also armed itself against part of the potential effects of the result of the referendum on the United Kingdom remaining in the European Union, by covering its pound sterling requirements over several months.

(1) Deposits or financial instruments posted by Dexia to its counterparties in order to secure obligations under interest rate or currency swaps.

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

- It is in particular exposed to the evolution of accounting and prudential rules.
- The financial characteristics of Dexia since its entry into resolution do not allow it to ensure compliance with certain regulatory ratios over the whole resolution period, given the evolution of the regulatory framework and of the macroeconomic environment since 2012. The business plan is indeed sensitive to the evolution of the macroeconomic environment. In this regard, the uncertainty generated by the result of the referendum on the United Kingdom remaining in the European Union has resulted in extremely severe volatility of market parameters, including exchange rates, interest rates and credit spreads, to which the Group is particularly sensitive. As at 30 June 2016, the extent of the movements observed remains within the proportions already seen in the past. An unfavourable evolution of these parameters over time could however weigh on the Group's liquidity and its solvency through an increase in the amount of cash collateral posted by Dexia to its derivatives counterparties (as the sensitivity of the liquidity requirement to this parameter is in the order of EUR 1.2 billion for a 10 basis point variation of long-term rates) or an impact on the valuation of assets, financial liabilities and OTC derivatives, the variations of which are booked to the income statement, or are liable to result in a variation of the AFS reserve and the level of the Group's regulatory capital.
- Finally, if market demand for government-guaranteed debt were to decline, Dexia would need to turn to more costly funding sources which would directly impact the profitability assumed in the original business plan.
  The latest update to the business plan shows a surplus liquidity position over the entire projection horizon. The determination of this surplus liquidity relies on a projection of the amount of cash collateral and it is therefore sensitive to variations of the latter. In 2016, sustained activity in long-term guaranteed issues and secured funding, under volatile market conditions, enabled the Group's liquidity reserves to be kept at a level of EUR 14 billion as at 30 June 2016, despite an increase in the net cash collateral posted of EUR 5 billion since 31 December 2015, to EUR 37 billion.

In preparing the condensed consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported. To make these assumptions and estimates, management uses the information available at the date of preparation of the financial statements and exercises its judgment. While management believes that it has considered all available information when making these assumptions, actual results may differ from such estimates and the differences may have a material impact on the financial statements.

Judgements are made principally in the following areas:

- classification of financial instruments into the appropriate category "loans and receivables", "held to maturity", "available for sale", "held for trading" and "fair value option" for measurement purposes based on instrument's characteristics and Dexia's intention;
- financial instruments not quoted in an active market are valued by means of valuation techniques. The determination whether or not there is an active market is based on criteria such as volume traded, market liquidity, bid offer spread etc;
- determination of fair value for financial instruments measured at fair value by means of valuation techniques;
- determination on whether Dexia controls the investee, including structured entities (IFRS 10);
- identification of non-current assets and disposal groups held for sale and discontinued operations (IFRS 5);
- hedge accounting;
- existence of a present obligation with probable outflows in the context of litigations;
- identification of impairment triggers.

Estimates are principally made in the following areas:

- determination of the recoverable amount of impaired financial assets and fair value less costs to sell for non-current assets and disposal groups held for sale;
- the measurement of hedge effectiveness in hedging relations;
- determination of the market value correction to adjust for market value and model uncertainty;
- determination of the useful life and the residual value of property, plant and equipment, and intangible assets;
- actuarial assumptions related to the measurement of employee benefits obligations and plan assets;
- estimate of future taxable profit for the recognition and measurement of deferred tax assets;

As mentioned in the note Significant events of H1 2016, in 2016, in order to be in line with market practices, Dexia adjusted its methodology of valuation of non-collateralised derivative instruments (discounting curve and the Induced effects on the Funding Valuation Adjustment (FVA)). This change in the method of calculation was recognised as an expense in Dexia's financial statements as at 30 June 2016 (see note 4. "Fair Value").

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 Group

2.1. IASB texts and IFRIC interpretations endorsed by the European Commission and applied as from 1 January 2016

- Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions". This amendment does not have a material impact on Dexia's financial statements, due to limited impact of defined benefit plans at Dexia's group level.
- Annual Improvements 2010-2012 and 2012-2014 cycles, which are a collection of amendments to existing IFRS. These amendments do not have a material impact on Dexia's financial statements as those amendments are related to minor adjustments of some IFRS standards.
- Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants". These amendments have no impact on the financial statements of Dexia.
- Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations". This amendment does not impact the financial statements of Dexia.
- Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation". These amendments have no impact on the financial statements of Dexia.
- Amendment to IAS 1 "Disclosure Initiative". This amendment does not have a material impact on the notes to Dexia's financial statements.
- Amendment to IAS 27 "Equity Method in Separate Financial Statements". This amendment is related to separate financial statements and therefore does not impact the consolidated financial statements of Dexia.

2.2. IASB texts and IFRIC interpretations endorsed by the European Commission during the current year but not yet applicable as from 1 January 2016

None

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

- IFRS 16 "Leases" (issued by IASB in January 2016). This standard, in replacement of the current IAS 17 standard and related interpretations, sets out a comprehensive model for the identification and treatment of lease arrangements. It 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. In contrast, IFRS 16 does not include significant changes to lessor accounting. IFRS 16 is effective as from 1 January 2019 and the impact on Dexia's financial statements is currently being assessed.
- Amendment to IAS 7 "Disclosure Initiative" (issued by IASB in January 2016). This amendment is effective as from 1 January 2017 and the impact on the notes to Dexia's financial statements is currently being assessed.
- Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses" (issued by IASB in January 2016). This amendment is effective as from 1 January 2017 and will not have a material impact on Dexia's financial statements.
- Clarification to IFRS 15 "Revenue from Contracts with Customers" (issued by IASB in April 2016). This amendment is effective as from 1 January 2018 together with the new standard IFRS 15 which establishes the principles for accounting for revenue arising from contracts with customers. The impact of this standard on Dexia's financial statements is currently being assessed.
- Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" (issued by IASB in June 2016). This amendment is effective as from 1 January 2018 and will have no impact on the financial statements of Dexia.

2.4. New standard IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" (issued by IASB in July 2014). This standard brings together three following phases to replace IAS 39 "Financial Instruments: Recognition and Measurement": classification and measurement, impairment and hedge accounting. Macro hedge accounting is addressed as a separate project by the IASB. Changes introduced by IFRS 9 include:

- on the asset side, 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; loans and debt securities which are not considered as "basic" as defined by the standard will be measured at fair value through profit or loss, whereas "basic" loans and debt securities will be measured at amortised cost or at fair value through other comprehensive income based on the business model for managing these assets.
- on the liability side, recognition in other comprehensive income of changes in the fair value attributable to own credit risk on financial liabilities designated as at fair value through profit or loss;

- a single impairment model. IFRS 9 replaces the incurred credit loss model for the impairment with a forward-looking model based on expected credit losses.
- a substantially-reformed approach to hedge accounting.
  While awaiting the future standard on macro hedging, IFRS 9 permits to keep applying the current hedge accounting requirements (IAS 39) for all hedge relationships or only for macro-hedge relationships. Disclosed information is also enhanced.
  IFRS 9 has not yet been adopted by the European Union as at 30 June 2016. It is mandatorily effective for periods beginning on or after 1 January 2018 and the impact on Dexia's financial statements is currently being assessed.
  Being aware that IFRS 9 is a major issue for banking institutions, Dexia launched its IFRS 9 project in the first quarter of 2015. The initial diagnostic and impact assessment studies of the application of the standard have been performed :
- on the first phase of the standard, Dexia reviews the characteristics and the classification and measurement method of all its financial assets;
- on the second phase of the standard, Dexia has initiated work to develop a new impairment model;
- on the third phase, the pros and cons of application of the new approach related to hedge accounting are currently being assessed. At this stage, no decision has been taken on whether or not to maintain the requirements in IAS 39 for Dexia's hedge relationships. Dexia also reviews new disclosure requirements.
  As permitted by IFRS 9, Dexia intends to early apply the treatment related to changes in the fair value attributable to own credit risk on financial liabilities designated as at fair value through profit or loss as soon as the standard is adopted by the European Commission.
  During the 1st semester of 2016, Dexia continued the analysis of the financial assets held by the Group regarding IFRS 9 classification criteria and the definition of the new methodology for credit risk allowances. Dexia also launched during the first semester of 2016 some studies for modifications of IT systems and process in order to be able to provide the new internal and external reporting requirements related to IFRS 9 starting from 1st January 2018.

3. Changes in presentation of consolidated financial statements of Dexia SA

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

Since 31 December 2013, they have been compliant with ANC Recommendation 2013-04 issued on 7 November 2013 "on the presentation of the consolidated financial statements of banks prepared in accordance with International Financial Reporting Standards" which cancels and replaces the Recommendation 2009-R.04 issued on 2 July 2009.

CHANGES IN SCOPE OF CONSOLIDATION

There was no significant change in the consolidation scope as at 30 June 2015, nor as at 30 June 2016.

SIGNIFICANT EVENTS OF H1 2016

The referendum held on 23 June 2016 on whether the United Kingdom should remain in the European Union saw a majority vote in favour of an exit. This result is the source of uncertainty for the United Kingdom and aroused an immediate reaction on the financial markets with severe volatility.

The fall of long rates observed in the weeks following the referendum is reflected as a consequence by an increase in the amount of cash collateral posted by Dexia to its derivatives counterparties. Structural measures were taken to limit the sensitivity to exchange variations on sterling and volatility on the income statement arising therefrom.

Variations of market parameters, in particular exchange and interest rates, impact the valuation of derivatives. An amount of accounting volatility of EUR -179 million was recorded in the item *Net gains (losses) on financial instruments at fair value through profit or loss* for the valuation of counterparty risk on derivatives (Credit Value Adjustment and Debit Value Adjustment) and for the Funding Value Adjustment (FVA), which allows to take into account the financing cost associated with non-collateralised derivatives.

In order to be in line with the evolution of market practices, Dexia has modified its approach in the second quarter of 2016 and now uses for the discounting an overnight rate (OIS) curve for all derivatives, irrespective of whether they are collateralized or not. Dexia has also adjusted accordingly the level of funding costs used in determining the FVA in order to reflect the funding of the exposure related to un-collateralized derivatives at rates different from overnight rates. This change explains EUR – 46 million of the amount of accounting volatility.

The group has made debt repayments for an amount of EUR 315 million with a gain of EUR 45 million, accounted for EUR 29 million in *Net gains (losses) on financial assets available for sale* and for EUR 15 million in *Net gains (losses) on financial instruments at fair value through profit or loss*.

As at 30 June 2016, the group recorded an amount of EUR -63 million in *Operating expenses* as the 2016 contribution to the Single Resolution Fund implemented by the European authorities as part of the Single Supervisory Mechanism and an amount of EUR -11 million as tax for systemic risk. These charges were recognized under principles of accounting standard IFRIC 21 "Levies". Moreover, the item contains a reversal of provision of EUR 34 million following the settlements reached in some litigations that were pending in the United States.

POST-BALANCE-SHEET EVENTS

The Dexia Group decided early 2016 to proceed with the sale of CBX Tower at La Défense.

The sales process was completed on Thursday, 21 July 2016 with the signing of the sale of the CBX tower to its original developer, Tishman Speyer, under the form of a « sale & lease back » agreement. Dexia undertook to continue to occupy part of the building for a period of at least 9 years.

In application of the IFRS 5 accounting standard, the building was transferred at its accounting value to "Non-current assets held for sale" in the books on 30 June 2016.

The gain on disposal of an amount before tax of around EUR 50 million will be booked in the Financial Statements as at 30 September 2016.

NOTE II. SEGMENT REPORTING

Having completed its commercial entity disposal program at the beginning of 2014 as required under the resolution plan, Dexia is now focused on managing its 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's performance is now shown at a consolidated level on the basis of a single division entitled "Management of activities in run-off", without specific allocation of funding and operating expenses by segment of activity.

This analytical presentation of performance is in line with Dexia's structure no longer consisting of homogenous operating units with their own decision-taking power in terms of resource allocation (funding and operating expenses).

Consequently, operating charges must be considered globally and by geographic entity to ensure optimum management.

NOTE III. EXCHANGE RATES

EXCHANGE RATES

		Closing rate			Average rate	
		30/06/15	31/12/15	30/06/16	30/06/15	30/06/16
US dollar	USD	1.1183	1.0901	1.1103	1.1101	1.1132

NOTE IV. FAIR VALUE

Some amounts may not add up due to roundings off.

FAIR VALUE MEASUREMENT AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

1. Valuation principles

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted market prices in an active market for identical instruments are to be used as fair value, as they are the best evidence of the fair value of a financial instrument.

If a financial instrument is not traded on an active market, recourse is provided by valuation models. The objective of a valuation model is to determine the value that is most representative of fair value under current market conditions. Dexia'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 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's policy, transfers between levels of the fair value hierarchy are performed at fair value at the end of the reporting period.

2. Valuation techniques

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

2.1. Financial instruments measured at fair value (held for trading, fair value option, available for sale, derivatives)

Financial instruments measured at fair value for which reliable quoted market prices are available

If the market is active, market prices are the most reliable evidence of fair value and therefore shall be used for valuation purposes.

The use of market prices quoted in an active market for identical instruments with no adjustments qualifies for inclusion in level 1 within IFRS 13 fair value hierarchy, contrary to the use of quoted prices in inactive markets or the use of quoted spreads.

Financial instruments measured at fair value for which no reliable quoted market prices are available and for which valuations are obtained by means of valuation techniques

Dexia'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 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 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 maximises the use of market data.

Dexia 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,…).

In order to comply with IFRS 13, applicable as from 1 January 2013, and to be in line with market practices, Dexia uses an OIS curve to determine the value of its collateralized derivatives.

Dexia has also adjusted its methodology for calculating the Credit Valuation Adjustment (CVA) and has recognised the Debit Valuation Adjustment (DVA) for derivatives. A CVA reflects the counterparty's risk of default and a DVA reflects Dexia's own credit risk.

When determining the CVA / DVA, Dexia 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.

Additionally, in line with market practice, Dexia developed a methodology to calculate as from June 2015 a Funding Valuation Adjustment (FVA) in order to take into account the funding costs associated to its uncollateralized derivative positions. As these uncollateralized 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.

Historically, when determining the value of its uncollateralized derivatives, Dexia has used a reference interest rate, generally interbank rates (BOR), for the discounting of the projected future cash flows. In order to be in line with the evolution of market practices, Dexia has modified its approach in the second quarter of 2016 and now uses for the discounting an overnight rate (OIS) curve for all derivatives, irrespective of whether they are collateralized or not. Dexia has also adjusted accordingly the level of funding costs used in determining the FVA in order to reflect the funding of the exposure related to uncollateralized derivatives at rates different from overnight rates.

Dexia will continue to improve its models in the next periods following market practice.

2.2. Financial instruments measured at amortised cost (valuations in IFRS disclosures on fair value)

Financial instruments reclassified from Trading or AFS to L&R

As a response to the financial crisis, the IASB issued on October 13th, 2008 an amendment to IAS 39 permitting the reclassification of certain illiquid financial assets. Dexia decided to benefit from this opportunity to reclassify assets for which an active market, as well as reliable quoted prices, was no longer available. A reclassification occurred also in 2014.

These assets are valued using Dexia's approach described above for the bonds for which no active market exists.

2.3. Financial instruments classified in HTM and L&R since inception and liabilities

Loans and Receivables, including mortgages loans, and liabilities are valued based on the following valuation principles

General principles

For the valuation of loans classified in L&R since inception the standard market approach is used based on market data considered as observable (credit spreads estimated by sector and applied to borrower's internal rating).

For the borrowing liabilities not quoted on the market, estimated credit spreads are also applied.

Interest rate part

The fair value of fixed-rate loans or liabilities and mortgages reflects interest rate movements since inception.

Embedded derivatives, like caps, floors and prepayment options are included in determining the fair value of loans and receivables or liabilities.

Credit risk part

Credit spreads changes since inception are reflected in the fair value.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

	31/12/15			30/06/16		
in millions of EUR	Carrying amount	Fair value	Unrecognised fair value adjustment	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	4,835	4,835	0	3,296	3,296	0
Interbank loans and advances	7,815	7,834	19	7,831	8,029	199
Customer loans and advances	127,876	119,102	(8,774)	128,181	118,177	(10,005)
Financial assets held to maturity	200	191	(9)	242	253	10
Central banks	15,932	15,932	0	7,350	7,350	0
Interbank borrowings and deposits	48,780	48,801	22	46,284	46,297	14
Customer borrowings and deposits	9,399	9,458	59	10,518	10,568	50
Debt securities	91,532	92,001	469	97,574	98,077	503
Subordinated debt	492	484	(8)	486	481	(5)

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.

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS (RECURRENT MEASUREMENT)

	31/12/15				30/06/16			
in millions of EUR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans and securities held for trading			1,375	1,375			1,339	1,339
Financial assets designated at fair value – equities	1			1	1			1
Derivatives held for trading		15,102	3,698	18,800		15,657	5,207	20,863
Hedging derivatives		5,472	1,200	6,672		6,584	1,126	7,710
Financial assets available for sale – bonds	19,019	614	2,375	22,007	16,537	597	3,079	20,213
Financial assets available for sale – equities	105	7	138	249	105	6	143	255
Total	**19,125**	**21,195**	**8,786**	**49,106**	**16,643**	**22,845**	**10,893**	**50,380**

FAIR VALUE MEASUREMENT OF FINANCIAL LIABILITIES (RECURRENT MEASUREMENT)

	31/12/15				30/06/16			
in millions of EUR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial liabilities designated at fair value	1	1,491	495	1,987	1	1,502	560	2,063
Derivatives held for trading		16,323	4,470	20,792		16,500	5,143	21,643
Hedging derivatives		15,602	14,376	29,978		22,447	17,316	39,764
Total	**1**	**33,416**	**19,341**	**52,757**	**1**	**40,449**	**23,020**	**63,469**

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 reccuring, 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.

FINANCIAL ASSETS

	31/12/15		30/06/16	
in millions of EUR	From 1 to 2	From 2 to 1	From 1 to 2	From 2 to 1
Financial assets available for sale – bonds		5,733	223	
Total financial assets		**5,733**	**223**	

In 2015, the transfers from level 2 to level 1 are mainly explained by the increasing liquidity in the market for Spanish covered bonds.

ANALYSIS OF THE EVOLUTION OF LEVEL 3

	30/06/15									
in millions of EUR	Opening balance	Total gains/ losses in P&L	Unrealised or deferred gains/losses	Purchase	Sale	Settlement	Transfer into level 3	Transfer out of level 3	Other movements (1)	Closing
Loans and securities held for trading	1,787				(267)	(21)			143	1,642
Financial assets designated at fair value – bonds and other fixed-income instruments	27	(1)				(20)				6
Derivatives held for trading	2,442	55					1,097	(8)	110	3,696
Hedging derivatives	1,236	(83)					162	(51)	1	1,265
Financial assets available for sale – bonds	2,604	(70)	(29)	28	(58)	(132)	317	(419)	134	2,375
Financial assets available for sale – equities	143	(3)	15		(1)				14	168
Total financial assets	**8,238**	**(101)**	**(14)**	**28**	**(327)**	**(173)**	**1,575**	**(478)**	**403**	**9,153**
Financial liabilities designated at fair value	805	(39)				(319)			69	515
Derivatives held for trading	1,857	175					1,884	(3)	69	3,982
Hedging derivatives	9,666	(887)					2,309	(207)	433	11,314
Total financial liabilities	**12,328**	**(751)**				**(319)**	**4,193**	**(210)**	**570**	**15,811**

(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 255 million in result and to EUR 144 million recognised in *Unrealised or deferred gains and losses through equity.* On the liabilities side, they amount to EUR 502 million recognised in result and to EUR 69 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 closing date.

in millions of EUR	30/06/16									
	Opening balance	Total gains/ losses in P&L	Unrealised or deferred gains/losses	Purchase	Sale	Settlement	Transfer into level 3	Transfer out of level 3	Other movements (1)	Closing
Loans and securities held for trading	1,375	89				(28)			(98)	1,339
Derivatives held for trading	3,698	568					1,073	(17)	(116)	5,207
Hedging derivatives	1,200	(47)	(1)				32	(48)	(9)	1,126
Financial assets available for sale – bonds	2,375	130	(53)	15	(1)	(108)	860	(153)	14	3,079
Financial assets available for sale – equities	138				(13)		20		(2)	143
Total financial assets	**8,786**	**740**	**(54)**	**15**	**(14)**	**(135)**	**1,984**	**(218)**	**(210)**	**10,893**
Financial liabilities designated at fair value	495	74							(8)	560
Derivatives held for trading	4,469	870					45	(32)	(207)	5,144
Hedging derivatives	14,376	3,609	551				37	(813)	(442)	17,316
Total financial liabilities	**19,340**	**4,552**	**551**				**82**	**(846)**	**(658)**	**23,021**

(1) Other movements include notably exchange differences for companies in euro and translation differences for companies in foreign currencies. On the assets side, they amount to EUR -178 million in result and to EUR -33 million recognised in *Unrealised or deferred gains and losses through equity.* On the liabilities side, they amount to EUR -651 million recognised in result and to EUR -9 million recognised in *Unrealised or deferred gains or losses through equity.*

The amounts of transfers to level 3 or out of level 3 are the amounts of fair value at the closing date.

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

SENSITIVITY OF LEVEL 3 VALUATIONS TO ALTERNATIVE ASSUMPTIONS

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

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

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

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

- For level 3 bonds in AFS, the sensitivity of the AFS reserve to alternative assumptions is estimated between a positive impact of EUR +23.7 million and a negative impact of EUR -23.7 million for June 2016, while in June 2015, it was estimated between a positive impact of EUR +29.4 million and a negative impact of EUR -29.4 million.
- Negative Basis Trades are considered as one single product, and are therefore tested for the bond and its related CDS together. The main assumption having an impact on their fair value is the unwinding impact. Based on the important number of unwinds performed by Dexia since 2009, and taking into account the stock of remaining NBT transactions in June 2016, the positive impact (unwinds cost of 2014) is EUR +5.1 million whereas the negative impact (unwinds cost of 2011) gives an impact of EUR -20.4 million. For June 2015, the positive impact (unwinds cost of 2009) was EUR +6.1 million whereas the negative impact (unwinds cost of 2011) gave an impact of EUR -24.6 million.

The impact of the credit spreads alternative assumptions on Dexia credit derivatives is estimated at EUR +12.2 million (positive scenario) versus EUR -12.6 million (negative scenario) before tax for June 2016, while in June 2015, it was estimated at EUR +23.6 million (positive scenario) versus EUR -25 million (negative scenario) before tax.

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

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

NOTE V. RELATED-PARTY TRANSACTIONS

We refer to the part "Shareholder information" of the Management Report, page 22 and to the note 4.4. Related-party transactions of the Dexia's annual report 2015.

NOTE VI. LITIGATION

We refer to the part "Risk Management" of the Management Report, page 20.

CERTIFICATE FROM THE RESPONSIBLE PERSON

The Board of Directors certifies, in the name and on behalf of the company, that to its knowledge:

a) the condensed consolidated financial statements, established in accordance with applicable accounting standards, present an accurate picture of the assets, the financial situation and the earnings of the company and the businesses included in the consolidation;
b) the management report contains a true statement of the information which must appear therein in accordance with applicable regulations.

Brussels, 17 August 2016

Wouter Devriendt
Chief Executive Officer and Chairman of the Management Board
Dexia SA

REPORT ON REVIEW OF THE CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016

To the board of directors

In the context of our appointment as the company's statutory auditor, we report to you on the consolidated interim financial information. This consolidated interim financial information comprises the consolidated balance sheet, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes I to VI related thereto (jointly the "consolidated interim financial information") of Dexia SA (the "company") and its subsidiaries (jointly the "group") as of 30 June 2016 and for the period of six months then ended, as included in the Financial Report H1 2016 of Dexia SA on pages 22 to 43

Report on the consolidated interim financial information

We have reviewed the consolidated interim financial information of Dexia SA ("the company") and its subsidiaries (jointly "the group"), prepared in accordance with International Financial Reporting Standard IAS 34 – *Interim Financial Reporting* as adopted by the European Union.

The consolidated balance sheet shows total assets of 235,887 million EUR and the consolidated statement of income shows a consolidated loss (group share) for the period then ended of 200 million EUR.

The board of directors of the company is responsible for the preparation and fair presentation of the consolidated interim financial information in accordance with IAS 34 – Interim Financial Reporting as adopted by the European Union. Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

Scope of review

We conducted our review of the consolidated interim financial information in accordance with International Standard on *Review Engagements (ISRE) 2410 – Review of interim financial information performed by the independent auditor of the entity.* 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 performed in accordance with the International Standards on Auditing (ISA) 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 on the consolidated interim financial information.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial information of Dexia SA has not been prepared, in all material respects, in accordance with IAS 34 – *Interim Financial Reporting* as adopted by the European Union.

Emphasis of Matter Paragraph on the application of the valuation rules in going concern

Without modifying the above conclusion, we draw your attention to Note 1 "*Accounting principles and rules governing the condensed consolidated financial statements – Changes in scope of consolidation – Significant events of H1 2016 – Post balance-sheet events*" of the consolidated interim financial statements on pages 29 to 33 of the Financial Report H1 2016 which states that the condensed consolidated financial statements of Dexia SA as at 30 June 2016 have been prepared in accordance with the accounting rules applicable to a going concern.

The justification of the going concern assumption is supported by the revised business plan which was validated by the Board of Directors on 16 August 2016 and which takes into account, the following assumptions:

- The revised business plan is based on the business plan which initial version served as the basis for the establishment of the orderly resolution plan for the Dexia group which was validated by the European Commission on 28 December 2012. In particular, the updates made on the basis of data available as at 31 December 2015 and validated by the Board of Directors of Dexia SA on 16 August 2016 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments to date, such as the final version of the CRD IV Directive and the implementation of the IFRS 9 accounting standard from 2018, based on assumptions known to date. More conservative assumptions as to an improvement of ratings and/or a tightening of credit spreads would negatively impact the income statement as well as the available liquidity reserves and would increase the level of the regulatory capital required.
- The business plan assumes that the different entities of the Group maintain their banking licence. It also relies on the maintenance of the rating of Dexia Crédit Local SA.
- The business plan relies on a robust funding programme based on Dexia's ability to issue debt guaranteed by Belgium, France and Luxembourg and the Group's ability to raise secured funding. If market demand for government-guaranteed debt decreases, Dexia may need to turn to more costly funding sources which would have a negative impact on the profitability assumed in the business plan. In particular, in the context of extremely severe volatility of exchange rates, interest rates and credit spreads to which the Group is particularly sensitive, the coming years will be still challenging.
- Moreover, the Group's balance sheet still exhibits structural imbalances and the limited resources available since the entry of the Group into resolution to remedy this situation do not allow to ensure compliance with certain regulatory ratios during the whole resolution period.

With respect to the realization of the revised business plan, taking into account the numerous exogenous variables, uncertainties remain as of the date of this report.

The going concern assumption is only justified to the extent that the group succeeds in realizing its revised business plan based on the underlying main assumptions described in Note 1 of the consolidated interim financial statements of the Financial Report H1 2016. No adjustments have been recorded with respect to the valuation or the classification of certain balance sheet items, which would be required, should the group no longer be able to continue its operations.

Diegem, 18 August 2016

The statutory auditor

DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises

BV o.v.v.e. CVBA / SC s.f.d. SCRL

Represented by Yves Dehogne

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FINANCIAL CALENDAR

DATES	EVENTS
17 November 2016	Results publication – 30 September 2016
16 February 2017	Results publication – 31 December 2016
17 May 2017	Ordinary Shareholders' Meeting for the year 2016
17 May 2017	Results publication – 31 March 2017

Dexia's Financial Report H1 2016 has been published by the Financial Communication Department. This report is also available in Dutch and French. In case of discrepancy between the English, the French and the Dutch versions of the Financial Report, the text of the French version shall prevail.