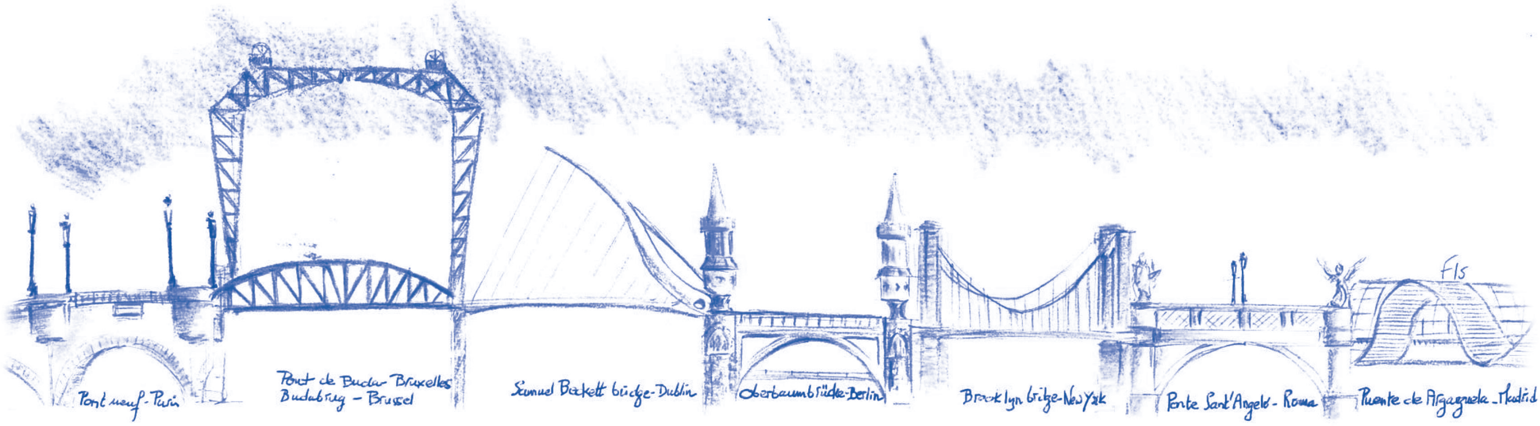
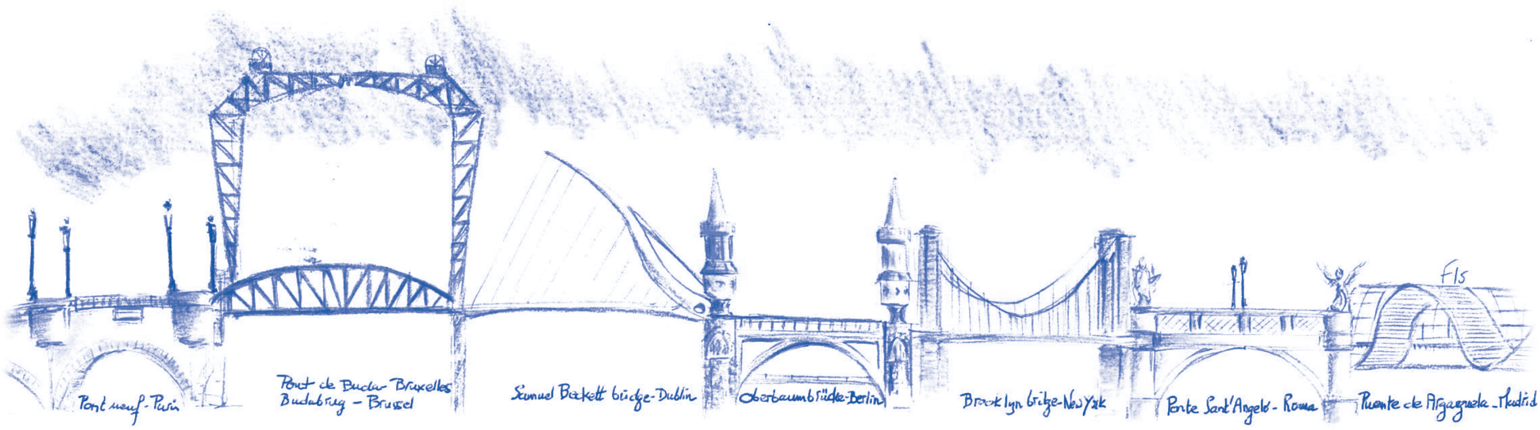
2018

ANNUAL REPORT

DEXIA CRÉDIT LOCAL



Registration document 2018



Management report

Message from the Chairmen

The year 2018 was marked by a sharp acceleration of the Group's simplification and reduction, despite a tense macroeconomic context, characterised by the end to the accommodating policy pursued by the European Central Bank, the increase of political uncertainties within the euro zone and the Brexit issue, as well as by severe volatility on the financial markets.

In line with the efforts to simplify the Group and to reduce the asset portfolios initiated in 2017, in 2018 we continued to pursue our objective of reducing the Group's balance sheet, risks and geographical footprint.

The intensification of our balance sheet reduction strategy resulted in a significant decline in the asset portfolio, by EUR 14 billion over the year. Asset sales in 2018 included securities to the US public sector and loans to the French public sector, Spanish covered bonds and ABS on US student loans or exposures related to the Japanese sovereign and local public sector. In terms of risk reduction, we focused our efforts on managing files with significant provisions, transferring almost all of our exposures related to the Commonwealth of Puerto Rico. These transactions have led to a significant reduction in the size of our balance sheet, which fell by 14% over the year to EUR 158 billion.

After disposing of our Israeli subsidiary and closing our Lisbon branch in the first half of 2018, we signed an agreement in December to sell our German subsidiary Dexia Kommunalbank Deutschland. This sale, which will be completed in the second quarter of 2019, is a major step in the Group's orderly resolution. It will facilitate the continuation of the resolution and reduce Dexia Crédit Local's balance sheet by an additional 15%.

On another front, we continued to take initiatives to secure our operating model. The implementation of the agreement to outsource IT services and back offices, signed between Dexia Crédit Local and Cognizant in 2017, continued during 2018, with the transfer of the teams in charge of back offices. We also decided to entrust Cognizant with the renewal and management of our IT infrastructure. The implementation of this second partnership will extend until the end of 2019 and will enable us to provide our Group with more efficient IT tools and strengthen our operational continuity.

Throughout 2018, we therefore continued to follow our strategic roadmap, while working for convergence towards the general supervisory framework requested by the European Central Bank and compliance with prudential requirements, which were further strengthened in 2019. The year's achievements were remarkable. In addition to the dynamic management of the Group's risks, balance sheet and liquidity, we are constantly working to move our Group towards a more centralised structure. All in all, although the net result for the year is negative, Dexia Crédit Local's liquidity and solvency situation is now better than expected and the size of the balance sheet is declining sharply.

In 2019, we will pursue our objective of simplifying our international network in order to reduce our geographical footprint and optimise our efficiency at a Group level. In addition to the closure of our branch in Madrid at the end of March and the completion of the sale of Dexia Kommunalbank Deutschland, scheduled for the second quarter, we will continue the restructuring of our network, which will result in particular in the reduction of our presence in New York, with the repatriation of the management of our American assets to head office and the transformation of our branch into a representative office.

We will of course remain attentive to the evolution of our cost base and we will strive to improve our efficiency.

The Group's resolution, against an uncertain background and in a constantly changing regulatory environment, is only possible with the daily commitment of all our employees. Our teams continue to do a remarkable job in managing this complex resolution. We thank them most sincerely for their unfailing commitment and dynamism in carrying out Dexia Crédit Local's mission.

Wouter Devriendt
Chief Executive Officer

Gilles Denoyel
Chairman of the Board of Directors

Dexia Crédit Local Group profile

A Group in orderly resolution

Headquartered in France, where it maintains a banking license, Dexia Crédit Local[1] is the Group's main operating entity, carrying the majority of its assets. Dexia Crédit Local also still has an international presence through its branches in Ireland, the United States and Spain and subsidiaries in Germany[2] and Italy. These entities also hold local banking licences.

The Dexia Crédit Local Group has 716 members of staff as at 31 December 2018.

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

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

Dexia Crédit Local no longer has any commercial activities and is now solely focused on managing its assets in run-off, mainly public sector and sovereign assets, while protecting the interests of the Group's State shareholders and guarantors. To meet this objective, Dexia and Dexia Crédit Local have established three strategic goals:
- Maintain the ability to refinance its balance sheet throughout its resolution plan;
- Preserve its capital base in order to comply with regulatory ratios;
- Ensure operational continuity by retaining the necessary expertise and resources and developing appropriate information systems.

(1) Throughout this reference document Dexia Crédit Local refers to Dexia Crédit Local S.A. and Dexia refers to Dexia SA/NV.
(2) On 14 December 2018, Dexia and the German banking group Helaba signed a share and purchase agreement concerning Dexia Kommunalbank Deutschland, Dexia Crédit local's subsidiary; cf. joint press release issued by Dexia and Helaba on 14 December 2018, available at www.dexia.com
(3) In 2012, the Belgian and French States increased Dexia's capital with EUR 5.5 billion.
(4) Regulation (EU) No. 468/2014 of the European Central Bank of 16 April 2014.

Simplified Group structure

Belgian Federal State through the Federal Holding and Investment Company
52.78%

French State
46.81%

Institutional, individual and employee shareholders
0.41%

Dexia

Dexia Crédit Local
100%
Including branches in the United States, Ireland, Spain(1)

Dexia Crediop
70%

Dexia Kommunalbank Deutschland(2)
100%

(1) The closure of Dexia Crédit Local's Madrid branch is expected for 29 March 2019.

(2) On 14 December 2018, Dexia and the German banking group Helaba signed a share and purchase agreement concerning Dexia Kommunalbank Deutschland, Dexia Crédit local's subsidiary; cf. joint press release issued by Dexia and Helaba on 14 December 2018, available at www.dexia.com

Management Board

CEO
Wouter Devriendt

Assets
Guy Cools
Executive Vice-President

Finance & Communication
Véronique Hugues
Executive Vice-President

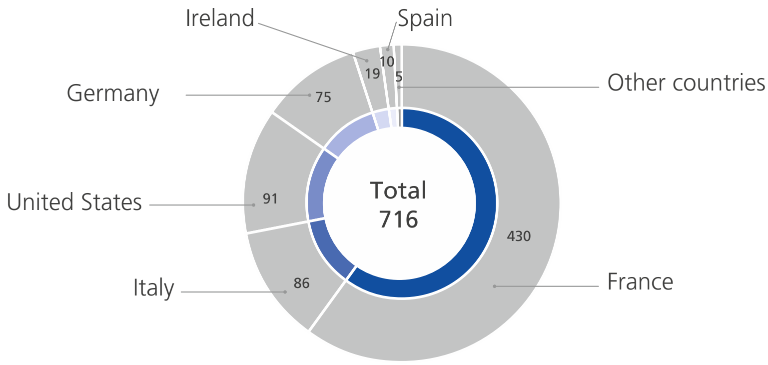
Risk
Giovanni Albanese
Executive Vice-President

Funding & Markets
Benoît Debroise
Executive Vice-President

Operations & IT
Aline Bec
Executive Vice-President

Key figures

MEMBERS OF STAFF AS AT 31 DECEMBER 2018



RESULTS (in EUR million)	**2017 IAS39**	**2018 IFRS9**
Net banking income	75	(68)
Costs	(372)	(365)
Gross operating income	(264)	(433)
Cost of risk	33	128
Result from discontinued operations, net of tax(1)	31	22
Net income Group share	(241)	(256)

(1) As the activity of Dexia Kommunalbank Deutschland is considered a discontinued operation in the sense of the IFRS 5 accounting standard, its post-tax income is isolated on a separate line from the Group's consolidated income statement.

BALANCE SHEET (in EUR billion)	**31/12/2017 IAS 39**	**01/01/2018 IFRS 9**	**31/12/2018 IFRS 9**
Balance sheet total	180.4	183.1	158.4
Total asset portfolio	94.5	94.5	79.9

SOLVENCY (in EUR million)	**31/12/2017 IAS 39**	**01/01/2018 IFRS 9**	**31/12/2018 IFRS 9**
Common Equity Tier 1	5,354	7,314	7,012
Total Capital	5,629	7,485	7,134
Risk-weighted assets	33,177	34,576	30,182
Common Equity Tier 1 ratio	16.1%	21.2%	23.2%
Total Capital ratio	17.0%	21.7%	23.6%

RATINGS AS AT 15 FEBRUARY 2019	**Long term**	**Outlook**	**Short term**
Dexia Crédit Local			
Fitch	BBB+	Stable	F2
Moody's	Baa3	Stable	P-3
Moody's – Counterparty Risk (CR) Assessment	*Baa3(cr)*		*P-3(cr)*
Standard & Poor's	BBB	Stable	A-2
GBB Rating	BBB	Positive	-
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-	CW Positive	-

Highlights

Despite the rise of political uncertainties within the euro zone and the Brexit issue, as well as the end of the accommodating policy pursued by the European Central Bank, for Dexia Crédit Local 2018 was characterized by a strong acceleration in the simplification and reduction of the Group. The efforts undertaken were continued and intensified, in particular including the sale of its stake in its subsidiary in Israel, the closure of Dexia Crédit Local's branch in Portugal and the signature of an agreement on the sale of its German subsidiary, Dexia Kommunalbank Deutschland. Dexia Crédit Local also continued the reduction of its asset portfolio.

Progress of the orderly resolution plan

Dynamic management of the balance sheet and credit risk

In 2018, Dexia Crédit Local continued and intensified its proactive strategy of reducing the balance sheet. This materialised in an annual reduction of the balance sheet total by EUR 24.7 billion, or 13.5%. The reduction of assets is significant, at EUR 14 billion over the year, of which EUR 7.3 billion related to disposals and EUR 1.1 billion to early redemptions. The natural amortisation of the balance sheet amounts to EUR 5.4 billion.

Asset sales in 2018 related in particular to US public sector securities and French public sector loans, Spanish covered bonds and ABS on US student loans or exposures to the Japanese sovereign and local public sector.

They are characterised by a long residual life of the transferred assets (9.4 years) and by the fact that a significant proportion of these assets was denominated in currencies other than the euro, in particular the US dollar and the yen. This has made it possible to reduce Dexia Crédit Local's funding risk in these currencies.

Dexia Crédit Local has strengthened its expertise in the sale of loans. After a first successful transaction in 2017, the bank sold two new portfolios of receivables from the French local public sector following a call for tenders from investors. These sales related to a total outstanding amount of EUR 1.1 billion for a total of 186 loans. Dexia Crédit Local also disposed of social housing loans in France, in two tranches, in an amount of EUR 0.8 billion.

As part of its credit risk reduction, efforts were concentrated on the management of heavily provisioned files. In particular, Dexia Crédit Local sold almost all of its exposure in relation to the Commonwealth of Puerto Rico[1] and obtained the redemption of debts associated with the Bulgarian railway sector. The Dexia Crédit Local's credit portfolio remains globally of good quality with 91% of exposures rated in the investment grade category as at 31 December 2018.

The Group also pays particular attention to the monitoring and management of certain exposures representing a significant concentration risk.

More detailed information is provided in the chapter entitled "Risk Management" in this registration document.

Signature of a sale agreement concerning Dexia Kommunalbank Deutschland

On 14 December 2018[2], Dexia Crédit Local signed with the German banking group Helaba a sale agreement allowing Helaba to buy 100% of the shares in Dexia Kommunalbank Deutschland (DKD) for a total consideration of EUR 352 million.

Dexia Crédit Local, acting through its Dublin branch, will sell its shares in DKD after having obtained all relevant regulatory approvals. The transaction is expected to close during the second quarter of 2019. It will have a non-significant impact on Dexia's solvency and will account for a reduction of approximately 15% of its balance sheet. Detailed financial impacts will be disclosed when the transaction closes.

Pursuant to this transaction, Dexia Crédit Local has also terminated, with effect as of the closing date of the sale, the Letters of Support it had issued to DKD.

Disposal of the 58.9% holding in Dexia Israel Bank

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

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

(1) Dexia Crédit Local's residual exposure to the Commonwealth of Porto Rico wasà EUR 5 million as at 31 December 2018. Entirely covered by a good quality monoline, that outstanding reaches maturity in 2020.

(2) Cf. Joint Dexia/Helaba Press Release dated 14 December 2018, available at www.dexia.com.

Closure of Dexia Crédit Local's Portuguese and Spanish branches

In 2016, from the perspective of simplifying its operational structure, the Dexia Group proceeded with the cross-border merger by absorption of Dexia Crédit Local and its subsidiary Dexia Sabadell as well as the simultaneous creation of two new branches of Dexia Crédit Local in Spain and in Portugal. On 29 June 2018, Dexia Crédit Local closed its branch in Lisbon, after finalising the transfer of assets to its Paris office. The same centralisation work is under way for the Madrid branch, and should enable it to be closed at the latest during the first half-year 2019.

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

Implementation of the service outsourcing agreement, signed between Dexia Crédit Local and Cognizant on 4 October 2017, continued during the first half-year 2018 with the transfer, on 1 May 2018, of the back office market and credit teams to Cognizant. The IT teams were transferred in November 2017. In total, 132 Dexia Crédit Local staff members were transferred under this agreement.
Dexia Crédit Local also chose to entrust the renewal and management of its IT system infrastructure to Cognizant. This transaction was the object of a separate agreement, also for a term of ten years. Its implementation will extend until the end of 2019 and will provide Dexia Crédit Local with better-performing IT tools and strengthen operational continuity. On the other hand, it will facilitate the actions taken by Cognizant, which will be able to work in synergy between IT applications and infrastructures.

Evolution of Dexia Crédit Local's governance

On 16 May 2018, Gilles Denoyel was appointed director and chairman of the Board of Directors of Dexia Crédit Local, replacing Robert de Metz, whose mandate ended. Gilles Denoyel is also director and chairman of the Board of Directors of Dexia.
On 6 September 2018, the Board of Directors of Dexia appointed Giovanni Albanese as director, Executive Vice-President and Chief Risk Officer of Dexia Crédit Local, replacing Johan Bohets, who had expressed his wish to leave the Group.
On 28 November 2018, the Board of Directors of Dexia appointed Bertrand Dumont as a of Dexia Crédit Local, replacing Thomas Courbe, who resigned.
On 4 February 2019, the Board of Directors of Dexia appointed Claire Cheremetinski as a director of Dexia Crédit Local, replacing Lucie Muniesa, who resigned.
As the governance of Dexia and Dexia Crédit Local is integrated, Giovanni Albanese is also executive director and Chief Risk Officer of Dexia. Bertrand Dumont and Claire Cheremetinski are also non-executive directors of Dexia.

Non-renewal of the specific approach to supervision and strengthening of prudential requirements regarding solvency applicable in 2019

On 16 July 2018[(1)], the European Central Bank (ECB) informed Dexia that the specific approach to the tailored, pragmatic and proportionate supervision applied to the Dexia Group since 2015 would not be renewed for 2019. This decision is a part of the trend of convergence of the requirements applied to Dexia towards the general supervision framework which began in 2018.
As from 1 January 2019, Dexia Crédit Local must therefore meet all the regulatory requirements applicable to banking institutions supervised by the ECB, at each level of the Group's consolidation. The observance of the constraint regarding large exposures will continue to be applied as described in the communication dated 5 February 2018, i.e. the deduction from its CET1 regulatory capital of the economic impact which might be generated by remediation on a failure to respect that ratio[(2)].
On 14 February 2019[(3)], the ECB informed the Dexia Group of the qualitative and quantitative prudential requirements with regard to solvency applicable to Dexia and its subsidiaries as from 1 March 2019.
More detailed information is provided in the chapter entitled "Information on capital and liquidity" in this registration document.

Recent developments

Notification to the European Commission of the renewal of the States Guarantee to Dexia Crédit Local

On 25 February 2019[(4)], the Board of Directors of Dexia was informed of the notification filed by the Belgian and French States with the European Commission of a proposal aimed at the renewal of the refinancing guarantee in favour of Dexia Crédit Local for the period after 31 December 2021. The new scheme proposed by the States is still subject to discussion. If approved by the European Commission, this scheme would also have to be validated in Belgium and France in accordance with relevant procedures in each State[(5)], and subsequently translated into an agreement between Dexia Crédit Local and the two States.
If implemented, in accordance with the new scheme as currently contemplated, the commission which would be payable by Dexia Crédit Local to the States on its liquidation as remuneration for the guarantee may absorb any net liquidation proceeds of Dexia and Dexia Crédit Local, as a result of which the holders of hybrid Tier 1 debt of Dexia and Dexia Crédit Local, as well as the shareholders of Dexia, would not receive any proceeds.

(1) Cf. Dexia Press Release dated 26 July 2018, available at www.dexia.com.
(2) Cf. Dexia Press Release dated 5 February 2018, available at www.dexia.com.
(3) Cf. Dexia Press Release dated 18 February 2019, available at www.dexia.com.
(4) Cf. Dexia Press Release dated 25 July 2019, available at www.dexia.com.
(5) Luxembourg would no longer be a guarantor under the new guarantee scheme.

Financial results

Notes regarding the Dexia Crédit Local's annual consolidated financial statements 2018

Going concern

The consolidated financial statements of Dexia Crédit Local as at 31 December 2018 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions underlying the business plan for the resolution of the Dexia Group, decided upon by the European Commission in December 2012. They are listed below:

• The macroeconomic hypotheses underlying the business plan are revised as part of the half-yearly reviews of the overall plan. The update made on the basis of market data observable as at 30 June 2018 and validated by the Board of Directors of Dexia on 19 December 2018 integrates the regulatory developments known to date, including the final version of the CRD IV Directive. It also takes account of the extremely positive impact on Dexia Crédit Local's regulatory capital of the first-time application of the IFRS 9 accounting standard as from 1 January 2018, with Dexia's Total Capital Ratio at 23.6% at the end of December 2018. Finally it takes account of the non-renewal, as from 1 January 2019, of the specific approach implemented by the European Central Bank for the supervision of the Dexia Group[1].

• The ongoing resolution assumes that Dexia Crédit Local retains a sound funding capacity, relying in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on the Group's capacity to raise secured funding. Since the end of 2012, Dexia Crédit Local has considerably reduced its funding requirement, diversified its access to different funding sources and taken advantage of favourable market conditions to extend the maturity of its liabilities, with a view to the prudent management of its liquidity. In particular, this enables Dexia Crédit Local to maintain a level of liquidity reserves which is deemed appropriate considering the restriction of access to European Central Bank funding announced on 21 July 2017[2]. The latest update of the business plan takes account of a revision of the funding plan relying on the last observable market conditions.

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

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

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

• In particular, this plan is likely to be impacted by new developments in accounting and prudential rules.

• Dexia and Dexia Crédit Local are also sensitive to the evolution of the macroeconomic environment and to market parameters, particularly exchange rates, interest rates and credit spreads. An unfavourable evolution of these parameters over time could weigh on Dexia's liquidity and its solvency position, for instance by increasing the amount of cash collateral paid by Dexia Crédit Local to its derivatives counterparties or an impact on the valuation of financial assets and liabilities and OTC derivatives, fluctuations of which are booked in the income statement and are liable to result in a fluctuation of the level of regulatory capital.

Discussions are ongoing between the European Commission and the Belgian and French States on the conditions of the renewal of the State guarantee as from 1 January 2022[3].

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

• Finally, Dexia Crédit Local is exposed to certain operational risks, specific to the resolution environment in which it operates.

Analytical segmentation

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

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

(1) Cf. Press Release issued by Dexia on 26 July 2018, available at www.dexia.com

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

(3) Cf. Press Release issued by Dexia on 26 February 2019, available at www.dexia.com

Classification as "Discontinued operations"

In accordance with the IFRS 5 accounting standard, Dexia Kommunalbank Deutschland has been classified as "Discontinued operations" in Dexia Crédit Local's consolidated financial statements as at 31 December 2018. DKD's assets and liabilities are presented on a separate line in the consolidated balance sheet. DKD's post-tax income has also been classified on a separate line in the consolidated income statement.

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

The IFRS 9 "Financial Instruments" accounting standard came into force on 1 January 2018, replacing the standard IAS 39. It has three aspects:
• The first relates to the classification and valuation of financial instruments;
• The second relates to the financial asset provisioning model;
• he third relates to hedge accounting.

Classification and valuation of financial instruments

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

Management model

The choice of management model under IFRS 9 has an impact on the possibilities for classification of financial assets authorised by the standard and, as a consequence, on their mode of valuation. Three management models are retained by the IFRS 9 accounting standard:
• "Hold to collect" model, with financial assets held with a view to collecting contractual cash flows;
• "Hold to collect and sell" model, with financial assets held with a view to collecting contractual cash flows, as well as disposal;
• "Other" model, in the case where the management intention does not correspond to either of the two previous models (in particular trading operations).

Asset characteristics

The characteristics of the financial assets are also decisive in identification of their accounting classification. Depending on the complexity of their structure and the cash flows they generate, financial assets are considered to be either SPPI (Solely Payments of Principal and Interest), for simpler and less structured assets, or non-SPPI for structured and/or complex assets. On the basis of these two elements, different accounting classifications are offered by the IFRS 9 accounting standard:
• Financial assets at amortised cost: this classification includes "hold to collect" assets considered to be SPPI. Such assets are valued at amortised cost;
• Financial assets at fair value through equity: this classification includes "hold to collect and sell" assets considered to be SPPI. Such assets are valued at fair value and value adjustments are booked through equity (Other Comprehensive Income – OCI);
• Financial assets at fair value through profit and loss: this classification includes assets for which the management intention does not correspond to "hold to collect" or "hold to collect and sell", as well as assets considered to be non-SPPI. Such assets are valued at fair value and value adjustments are booked through profit and loss.

Asset classification

In line with its status as an entity managed in run-off, Dexia Crédit Local has for the most part opted for a "hold to collect" management model. As a result, assets booked as "available for sale" (AFS) under IAS 39, have been classified in the "amortised cost" category under IFRS 9.
Furthermore, Dexia Crédit Local identified a portfolio of assets which may be the object of a disposal in coming years. These assets have been classified in the category "fair value through equity" under IFRS 9, as have the liquid assets held by Dexia Financial Products Services LLC.
Finally, in accordance with the standard, certain non-SPPI assets have been classified in the "fair value through profit and loss" category under IFRS 9.

Consequence for Dexia Crédit Local

Classification of the majority of Dexia Crédit Local's assets in the "amortised cost" category under IFRS 9 involves a significant positive impact associated with the cancellation of latent gains and losses observed in equity under IAS 39.
This classification also results in a reduction and a change of the sensitivity of Dexia Crédit Local's equity to credit spread fluctuations, as the valuation of assets classified at "amortised cost" is no longer affected by credit spread fluctuations. In particular, the reduction of sensitivity is notable on Italian and Portuguese sovereigns. A residual sensitivity to credit spreads continues to exist, for assets classified in the "fair value through equity" and in the "fair value through profit and loss" category under IFRS 9. It now relates principally to American ABS as well as assets in the French and US public sectors.

Financial asset provisioning model

The IFRS 9 accounting standard defines a new credit risk provisioning model for assets booked at "amortised cost" and "fair value through equity". Off-balance-sheet commitments are also subject to this new model.
Under IAS 39, credit risk provisioning took place when an operative event was observed. Under IFRS 9, provisioning is now made from the origination of the asset on the basis of expected credit losses.
The provisioning model defined by IFRS 9 relies on the distinction of three separate asset classes:
• The first (stage 1) corresponds to assets for which the credit risk has not deteriorated since origination. The level of provisioning of such assets corresponds to the expected loss over 12 months.
• The second (stage 2) corresponds to assets for which the credit risk has significantly deteriorated since origination, but without a default having been observed. The level of provisioning of such assets corresponds to the expected losses over the residual term.
• The third (stage 3) corresponds to assets on which there has been a default. The level of provisioning corresponds to the expected losses over the residual term. Assets acquired when they had already deteriorated are classified in this category. In this latter case, the modes of calculation of the provisioning level are specific.

Implementation of the new provisioning model by Dexia Crédit Local

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

Hedge accounting

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

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

Consolidated balance sheet

The first-time application of the IFRS 9 accounting standard is reflected by an increase of the balance sheet total by EUR +2.6 billion as at 1 January 2018, principally due to the cancellation of the frozen AFS reserve.
Furthermore, in accordance with Recommendation N° 2017-02 dated 2 June 2017 of the French Autorité des Normes Comptables (ANC), certain changes have been made to the presentation of the financial statements, principally the creation and deletion of headings associated with the implementation of IFRS 9 as well as the presentation of cash collateral under the headings "Interbank/Customer loans and receivables" and "Interbank/Customer borrowings and deposits" under IFRS 9.

Accounting and prudential equity – solvency ratios

The application of IFRS 9 generates a total positive net impact in the order of EUR 2.6 billion on accounting equity Group share as at 1 January 2018, associated with the asset classification and the implementation of the new provisioning model, partially offset by the adjustment to prudential treatment (EUR -0.4 billion).
Common Equity Tier 1 Capital and Total Capital rise by EUR 2.0 billion and EUR 1.9 billion respectively.
Risk-weighted assets increase by EUR 1.4 billion, following the increase of EAD outstanding due to the cancellation of the frozen AFS reserve.
As a consequence, Dexia Crédit Local's Common Equity Tier 1 Capital and Total Capital amount to 21.2% and 21.7% respectively as at 1 January 2018 against 16.1% and 17.0% as at 31 December 2017, or an increase of 5.1% and 4.7%.
Dexia Crédit Local decided to opt for transitional provisions[1] enabling it to spread over five years the impact on prudential equity resulting from the implementation of the new IFRS 9 impairment model. This will enable the bank to smooth the effects on the level of impairment of the migration of an asset from one category to another and attenuate any volatility generated by the new impairment model on prudential solvency ratios. In particular, Dexia Crédit Local is sensitive to any change of stage of Italian government debt.

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

ACCOUNTING EQUITY AS OF 1 JANUARY 2018

(in EUR million)

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

PRUDENTIAL EQUITY AS AT 1 JANUARY 2018

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

Dexia Crédit Local's consolidated financial statements

Analysis of the consolidated income statement

During 2018, the Dexia Crédit Local Group booked net income Group share of EUR 256 million.
Over that period, net banking income was EUR -68 million, it consisted of:
- the net interest margin, which includes income from asset portfolios and the funding cost, and amounted to EUR +87 million. Over the year, income followed a downward trend, as a result of the reduction of asset portfolios. At the same time, the funding cost followed a similar trend, in view of the reduction of volumes to be funded, an optimisation of the funding mix and favourable market conditions. The fall of the net interest margin is principally explained by the reduction of transformation income;
- net commissions of EUR -4 million;
- net gains or losses on financial instruments at fair value through profit or loss, which amounted to EUR -144 million. This amount results mainly from a charge of EUR -73 million booked as the Funding Value Adjustment (FVA), which represents the funding cost associated with non-collateralised derivatives. The negative impact of the FVA is linked to an adjustment to the calculation method used by Dexia as well as the increase of the funding cost for the banking sector in the 4th quarter. The Credit Value Adjustment (CVA), an adjustment of the value of derivatives related to counterparty risk, is also negative, at EUR -35 million as a result of the widening of credit spreads, particularly on banking counterparties. The variation of market parameters during the year also has a negative impact on hedging inefficiencies. In particular, the valuation of derivatives was marked by the unfavourable evolution of the BOR/OIS spreads in pound sterling;
- net gains or losses on financial instruments at fair value through other comprehensive income, in an amount of EUR 11 million, principally due to gains on asset disposals;
- net gains or losses arising on derecognition of financial assets measured at amortised cost, in an amount of EUR -14 million, due to disposals of assets and financial assets;
- other income, at EUR -4 million.

Costs amounted to EUR -365 million, including EUR -104 million of taxes and regulatory contributions as at 31 December 2018. In particular, these taxes and contributions include the contribution from Dexia Crédit Local and Dexia Crediop to the Single Resolution Fund (EUR -72 million), the tax for systemic risk (EUR -4 million), an exceptional contribution from Dexia Crediop to the Italian national resolution fund (EUR -3 million) and the contribution from Dexia Kommunalbank Deutschland to the Single Resolution Fund (EUR -13 million), recorded under the heading "result from discontinued operations, net of tax" in accordance with the IFRS 5 accounting standard. Excluding these taxes and contributions, operating costs were down, illustrating the efforts to control costs undertaken by Dexia Crédit Local.
The cost of credit risk was EUR +128 million. This amount is explained mainly by the reversals of provisions after the disposal of exposures linked to the Commonwealth of Puerto Rico and the reimbursement of a debt in Bulgaria, as well as the revaluation of provisions on certain exposures particularly on the Portuguese sovereign. It is partially offset by the provisioning of the exposure to the Chicago Board of Education in the 4th quarter of 2018.
Pre-tax income was EUR -296 million.
Over the year, the tax charge was EUR -8 million.
The result from discontinued operations, net of tax was EUR +22 million representing the contribution of Dexia Kommunalbank Deutschland to the result.
The income attributable to minority interests amounted to EUR -26 million, leading to net income Group share of EUR -256 million.

Evolution of the consolidated balance sheet

As at 31 December 2018, Dexia Crédit Local's consolidated balance sheet total amounted to EUR 158.4 billion, down EUR -24.7 billion compared to 31 December 2017, adjusted for the first-time application of the IFRS 9 accounting standard, under the combined effect of a dynamic balance sheet management policy and the macroeconomic environment. At EUR 80 billion, the asset portfolio fell by about EUR -14 billion compared to the end of December 2017, of which almost 60% due to asset disposals and early redemptions.
To recall, the first-time application of the IFRS 9 accounting standard was reflected by an increase of the balance sheet total of EUR +2.6 billion as at 1 January 2018, mainly due to the cancellation of the frozen AFS reserve (see section "Impacts of the first-time application of the IFRS 9 accounting standard by Dexia Crédit Local").

CONSOLIDATED INCOME STATEMENT – ANC FORMAT	**2017 (1)**	**2018**
(in EUR million)	**IAS 39**	**IFRS 9**
Net banking income	**75**	**(68)**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	(372)	(365)
Gross operating income	**(264)**	**(433)**
Cost of Credit risk	33	128
Net gains and losses on other assets	2	9
Pre-tax income	**(262)**	**(296)**
Income tax	(9)	(8)
Result from discontinued operations, net of tax	31	22
Net income	**(240)**	**(282)**
Minority interests	1	(26)
Net income Group share	**(241)**	**(256**

(1) As the activity of Dexia Kommunalbank Deutschland is considered a discontinued operation in the sense of the IFRS 5 accounting standard, its post-tax income is isolated on a separate line from the consolidated income statement.

Over the year, at a constant exchange rate, the reduction of balance sheet assets is principally attributable to:
• the EUR -14 billion reduction of the asset portfolio, of which EUR -8.3 billion attributable to asset disposals or early redemptions and EUR -5.4 billion to natural portfolio amortisation;
• the fall in fair value of assets and derivatives of EUR -5.5 billion;
• a EUR -2.7 billion reduction of the amount of cash collateral paid by Dexia Crédit Local to its derivatives counterparties;
• the sale of Dexia Israel (EUR -2 billion);
• On the liabilities side, at a constant exchange rate, balance sheet evolution is principally attributable to:
• a EUR -17.7 billion reduction of the market funding stock;
• a EUR -5.3 billion fall in the fair value of liabilities and derivatives;
• a EUR -2 billion reduction linked to the sale of Dexia Israel.
The impact of exchange fluctuations on the annual evolution of the balance sheet is slightly positive, at EUR +0.9 billion.

In December 2018, Dexia Crédit Local signed an agreement on the sale of its subsidiary Dexia Kommunalbank Deutschland (DKD). The transaction is expected to be completed in the second quarter of 2019. DKD's contribution to the consolidated balance sheet total amounted to EUR 24.4 billion as at 31 December 2018, including EUR 14 billion of asset portfolios.

Information country by country

All the entities of the Dexia Crédit Local Group are managed in run-off. Furthermore, Dexia Crédit Local observes the principles of the Foreign Account Tax Compliance Act (FATCA) as well as the principles adopted by the OECD and the G20 on the implementation of international standards aimed at improving fiscal transparency and the exchange of information for tax purposes.

1. ESTABLISHMENT AND THE NATURE OF THEIR ACTIVITY

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

(1) On 14 December 2018, Dexia and the German banking group Helaba signed a share and purchase agreement concerning Dexia Kommunalbank Deutschland, Dexia Crédit local's subsidiary; cf. joint press release issued by Dexia and Helaba on 14 December 2018, available at www.dexia.com

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

2. INFORMATION BY COUNTRY

Country of establishment	Net banking income (in EUR million)	Pre-tax income (in EUR million)	Current tax (in EUR million)	Workforce
Germany[(1)]	48	22	0	75
Spain	17	19	(1)	10
United States	(44)	(136)	6	91
France	(88)	(218)	(3)	430
Cayman Islands	(13)	(13)	0	0
Ireland	123	140	0	19
Italy	(60)	(86)	0	86
United Kingdom	(3)	(3)	0	0

(1) On 14 December 2018, Dexia and the German banking group Helaba signed a share and purchase agreement concerning Dexia Kommunalbank Deutschland, Dexia Crédit local's subsidiary; cf. joint press release issued by Dexia and Helaba on 14 December 2018, available at www.dexia.com

Statutory financial statements of Dexia Crédit Local

Evolution of the income statement

The **net income** oof Dexia Crédit Local for the 2018 financial year amounted to EUR +647 million against EUR +1,004 million in 2017. It is marked principally by the continuing transformation of the Group's funding structure and repatriations of assets from subsidiaries and branches.

Net banking income was positive at EUR +466 million in 2018, against EUR +1,427 million at the end of 2017.

It consisted in particular of:

- the net interest margin, which includes income from asset portfolios and the funding cost, and which amounted to EUR +451 million;
- losses on held-for-trading portfolios and financial instruments of EUR -295 million essentially including interest charges on derivatives and the negative impacts of the Funding Value Adjustment (FVA) and the Credit Value Adjustment (CVA);
- gains on investment portfolios of EUR +251 million considering the favourable evolution of credit spreads;
- gains associated with the disposal of held-to-maturity securities of EUR +67 million.

Operating expenses were stable, as EUR -307 million over the year 2018. They include EUR -71 million of taxes and regulatory contributions.

The **Cost of credit risk** had a negative impact of EUR -35 million at the end of 2018. It consisted mainly of:

- an impact of EUR +71 million associated with the change of estimate of collective loan impairments;
- the recovery of a debt relating to the Hypo Alpe Adria Bank (HETA), an insolvent Austrian bank, in an amount of EUR +23 million;
- an increase of the provisioning on exposures associated with the Chicago Board of Education for EUR -72 million;
- An additional provision of EUR -90 million associated with the valuation of the holding in Dexia Crediop.

The item **gains/losses on fixed assets** amounted to EUR +528 million. It consisted mainly of the reversal of a provision for depreciation within the framework of the process begun to dispose of Dexia Kommunalbank Deutschland for EUR +504 million and a gain on the disposal of Dexia Israel of EUR +24 million.

INCOME STATEMENT

(in EUR million)	2017	2018
Net banking income	**1,27**	**466**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	(321)	(321)
Gross operating income	**1,06**	**145**
Cost of credit risk	67	(35)
Operating income	**1,73**	**110**
Gains or losses on fixed assets	(162)	528
Pre-tax income	**1,11**	**638**
Exceptional income	0	11
Corporate income tax (expense)	(7)	(2)
Net income	**1,004**	**647**
Basic earnings (loss) per share (in EUR)	*3.59*	*2.32*
Diluted earnings per share (in EUR)	*3.59*	*2.32*

Balance sheet evolution

The balance sheet total as at 31 December 2018 was EUR 08.9 billion against 118.9 billion in 2017, down 8.45%. Applying Article R 511-16-1 of the Monetary and Financial Code, the Dexia Crédit Local return on assets, calculated by dividing the net result by the balance sheet total, was +0.68% in 2018.

Assets

Customer loans

As at 31 December 2018, total customer loans were down by 19.4% at EUR 24.2 billion (against EUR 30 billion at the end of December 2017) in view of disposals, early loan redemptions and natural amortisation.

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

The total value of securities held was EUR 32 at the end of 2018, against EUR 29 billion at the end of 2017. The evolution of the different portfolios is presented in the notes to the financial statements. They consist essentially of French and foreign bonds, negotiable debt securities and government securities. The increase of the securities portfolio is explained by the transfer of 108 held-to-maturity securities in Dexia Kommunalbank Deutschland to Dexia Crédit Local Dublin for a transfer value of EUR +5.14 billion.

Equity investments, shares in affiliated enterprises

Equity investments amounted to EUR 0.7 billion, against EUR 0.3 billion at the end of 2017, following the reversal of the provision for depreciation of the holding in Dexia Kommunalbank Deutschland.
There was no acquisition in 2018.

Other assets

The item "Other assets" was EUR 22 billion, against EUR 23 billion at the end of 2017.
This item essentially consisted of cash collateral.

Liabilities

Banks and financial institutions

The Dexia Crédit Local debt with credit institutions was EUR 31 billion as at 31 December 2018 against EUR 31 billion at the end of 2017.

Debt securities

The debt securities in total liabilities are a characteristic element of the Dexia Crédit Local balance sheet. As at 31 December 2018, this amount was EUR 68 billion, against EUR 71 billion at the end of 2017 and represented the amount of bond debts issued by Dexia Crédit Local and for the most part benefiting from the guarantee of the French, Belgian and Luxembourg States.

Delays in paying suppliers

Applying Articles L. 441-6-1 and D. 441-4 of the French Commercial Code, Dexia Crédit Local must each year publish a breakdown of the balance of its debts to suppliers by due date.
The supplier debts of Dexia Crédit Local represent an insignificant amount in the company's balance sheet total. Dexia Crédit Local's practice is to settle its invoices at 45 days unless a contractual agreement is signed with the supplier providing for a settlement deadline of 30 days or 60 days as the case may be.
Supplier debts were EUR 1.3 million as at 31 December 2017.
Debts associated with banking activity, for which new provisions cannot be adapted, are described in the notes 2.3 and 2.4 to the statutory financial statements.
Delays in payment relating to debts outside banking activity are indicated below.

Detail of supplier invoices received, due and not settled as at 31 December 2018 (in EUR)

Number of invoices	Balance TTC EUR	1 to 30 days	31 to 60 days	61 to 90 days	91 days and more	Total
19	77,682	(21,368)	0	0	99,050	77,682

Detail of customer invoices issued, due and not settled as at 31 December 2018 (in EUR)

Number of invoices	Balance TTC EUR	1 to 30 days	31 to 60 days	61 to 90 days	91 days and more	Total
5	288,174	0	0	265,264	23,450	288,714

Eckert Law Information

Dexia Crédit Local declares as information provided in II of Article L. 312-19 and the fourth paragraph of I of Article L. 312-20 that it has the following accounts as at 31 December 2018:

- Outstanding deposits and assets on inactive accounts: EUR 8,908;
- Number of accounts the assets of which are deposited with the Caisse des dépôts et consignations: 0;
- Total amount of funds deposited with the Caisse des dépôts et consignations: 0.

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FIVE –YEAR FINANCIAL SUMMARY	2014	2015	2016	2017	2018
FINANCIAL SITUATION					
Share capital (in EUR)	223,657,776[(1)]	223,657,776	279,213,332[(2)]	279,213,332	279,213,332
Number of shares	223,657,776	223 ,657,776	279,213,332	279,213,332	279,213,332
COMPREHENSIVE INCOME (IN EUR)					
Revenues	1,608,398,829	1,432,949,370	2,861,425,520	1,862,276,007	2,584,397,238
Earnings before income tax, depreciation, amortisation and net impairment charges	(105,198,739)	209,875,341	160,629,999	245,593,268	(859,702,347)
Corporate income tax	(3,079,383)	886,101	(22,784 ,693)	(6,755 ,199)	(2,417,794)
Earnings after income tax, depreciation, amortisation and net impairment charges	(747,087,790)	60,179,506	(216,780,648)	1,003,770,302	646,943,849
Dividends	Nil	Nil	Nil	Nil	Nil
DATA PER SHARE (IN EUR)					
Revenues	7.19	6.41	10.25	6.67	9.26
Earnings after income tax, and before depreciation, amortisation and net impairment charges	(0.47)	0.94	0.49	0.86	(3.09)
Corporate income tax	(0.01)	0.00	(0.08)	(0.02)	(0.01)
Earnings after income tax, depreciation, amortisation and net impairment charges	(3.34)	0.27	(0.78)	3.59	2.32
Dividends	0.00	0.00	0.00	0.00	0.00
EMPLOYEE DATA					
Employees as at 31 December	805	793	811	683[(3)]	554[(3)]
Managerial staff	644	640	638	549	436
Administrative staff	161	153	173	134	118
Gross payroll (in EUR)	81,251,269	79 595 293	80,733,095	76,366,807	71,563,004
Payroll taxes and employee benefits (social security, employee benefit programmes etc.) (in EUR)	24,803,347	25,302,829	24,401,805	23,533,784	19,73, 884

(1) By resolution of the combined shareholders' meeting held on 16 December 2014, Dexia Crédit Local reduced its share capital by an amount of EUR 1,062,374,436 in order to clear the company's debts. This capital reduction was effected by reduction of the nominal value of shares. Dexia Crédit Local's share capital is now EUR 223,657,776 represented by 223,657,776 shares each with a nominal value of EUR 1.00.

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

(3) In November 2017, the IT staff members were trasnferred to Cognizant. In May 2018, the back-office staff members were transferred to Cognizant.

Risk Management

Introduction

In 2018, the Risk activity line continued actively to manage the risk carried by Dexia Crédit Local, in line with the Risk Appetite Framework (RAF). This system was enhanced this year and includes new risk indicators for monitoring provisions following the transition to IFRS 9, operational and business continuity risk indicators, related in particular to the implementation phase of the IT services outsourcing and back office agreement. Its purpose is to define principles for assessing any deviation of the risk profile from the strategic plan approved by the Group's management bodies.

Dexia Crédit Local continued and intensified its proactive strategy of reducing its commercial portfolio. The decrease of outstanding is mainly due to natural portfolio amortisation and the sale of assets, partially offset by the impact of the implementation of IFRS 9, in particular the release of the AFS reserve. As part of the reduction of credit risk, efforts were focused on the management of highly provisioned files. In particular, Dexia Crédit Local sold almost all of its exposures related to the Commonwealth of Puerto Rico and obtained repayment of receivables related to the Bulgarian rail sector. The reversal of provisions following these disposals, combined with the revaluation of provisions on certain exposures, notably the Portuguese sovereign, to a broad extent explain the positive cost of risk, which was EUR 128 million for the year 2018. In the fourth quarter 2018, Dexia Crédit Local also increased its provisioning of exposure to the Chicago Board of Education.

The implementation of the outsourcing agreement signed in early October 2017 with Cognizant resulted in the transfer of IT services in November 2017 and credit and market back offices in May 2018. This partnership with Cognizant marks an important step in securing Dexia Crédit Local's operating model. Outsourced services are closely monitored, in particular by indicators from the Risk Appetite Framework. Dexia Crédit Local has also chosen to entrust Cognizant with the renewal and management of its IT infrastructure under a separate agreement. Its implementation, which is ongoing, will extend over 2019 and is also closely monitored.

As in 2017, Dexia Crédit Local participated in the transparency exercise organised by the European Banking Authority (EBA), the elements and conclusions of which were published at the end of November 2018. The aim of this exercise was to provide detailed and harmonised information on the balance sheets and portfolios of the main European banks.

Governance

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

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

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

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

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

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

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

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

Organisation of the Risk activity line

The Risk Management Executive Committee

As at 31 December 2018, this committee consists of the Chief Risk Officer and each department is represented within this committee:
- the Credit Analysis Centres department,
- the Market Risk department,
- the Permanent Control, Operational Risk and IT Systems Security department,
- the Strategic Risk and Regulatory Management department,
- the Credit Models and Default Monitoring department.
- the Comprehensive Risk Assessment department,
- the Governance and Reporting department.

It meets on a weekly basis to review risk management strategies and policies as well as the main internal reports prior to their dissemination outside the activity line. In addition, it is responsible for monitoring regulatory issues, validating collective provisioning methodologies and the general organisation of the activity line.
In particular, the Executive Committee of the Risk activity line is responsible for monitoring models (developments, reviews, back testing, stress testing) on proposals from the teams responsible for the management of risk models, quantification and default monitoring and the market risks team. It regularly informs the Management Board and the Risk Committee of the use of models and, as the case may be, developments and/or difficulties.
The organisation and operation of the activity line also rely on other committees, the prerogatives of which are governed by a system for the delegation of powers, defined in relation to the nature of the risks to which the Group is exposed.

Typology of the risks supervised by Risk Management

Risk Appetite Framework

The Risk Appetite Framework (RAF) is a regulatory requirement which defines Dexia's level of risk tolerance and falls within the implementation of Dexia Crédit Local strategy. It defines Dexia Crédit Local's risk profile, and qualifies the types of risk which Dexia Crédit Local is inclined to hold, minimise, attenuate or transfer in order to achieve its strategic objectives. The RAF considers Dexia Crédit Local's significant risks and relies on Dexia Crédit Local's strategy and capital forecasts.
The RAF was introduced in Dexia Crédit Local in 2016. It includes a declaration of risk appetite, qualitative and quantitative risk limits and an overview of the roles and responsibilities of bodies and functions which supervise implementation and monitoring. It is subject to regular monitoring and an annual review in order to integrate any new regulatory, strategic or operational development. A half-yearly consolidated schedule is presented by Risk Management to the Risk Committee and to the Board of Directors, with the aim of close and in-depth monitoring of the main risk indicators and of informing the bank's decision-making bodies.

Credit risk

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

The Credit Analysis Centres department defines the bank's credit risk policy, which encompasses supervision of the processes for rating counterparties, analysing credit files and monitoring exposures within Dexia Crédit Local. It also determines the specific provisions presented quarterly when the accounts are drawn up.
Along with the Risk Committee, the Management Board and the Transaction Committee, the following three committees meet on a quarterly basis:
- The **Watch-list Committee** supervises assets considered "sensitive", placed under watch, and decides on the amount of impairments set aside;
- The **Default Committee** screens and monitors counterparties in default by applying Dexia Crédit Local's internal rules, in compliance with the regulatory framework;
- The **Rating Committee** ensures that internal rating processes are aligned with the established principles and that those processes are consistent across the various entities.

Market risk

Market risk represents Dexia Crédit Local's exposure to changes in market parameters, such as interest and exchange rates. Interest rate risk consists of structural interest rate risk and specific interest rate risk associated with a given credit counterparty. The latter arises from fluctuations in the credit spread on specific counterparties within a rating class. The foreign exchange risk represents the potential decrease in the value of assets arising from fluctuations in exchange rates against the euro, which is the reference currency in which Dexia Crédit Local prepares its financial statements. The interest rate and foreign exchange risks of the positions within the banking portfolio are part of the transformation risk.
Market risk policy and management are in the hands of the Management Board. To facilitate the Group's operational management, a system of delegated authority has been put in place:
- The **Market Risk Committee** is responsible for market risk governance and standards. It defines the risk limits that form the general framework for the Group's risk policy, analyses risk results and positions and approves risk measurement methods. It meets on a monthly basis.
- The **Valuation and Collateral Monitoring Committee** meets quarterly to analyse indicators relating to collateral management, to decide on action plans for significant valuation differences and to monitor the valuation of structured products.

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

Transformation risk

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

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

Operational risk and IT systems security

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

Regulatory risk

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

ICAAP/ILAAP

In 2017, Dexia Crédit Local established the Stress Tests and Pillar II Committee under the joint responsibility of the Finance and Risk activity lines in order to guarantee appropriate governance and consistency in the measurement of the risks of deviation from strategic plans, internal ICAAP and ILAAP processes and to ensure observance of the appropriate requirements.
This committee approves all of these subjects prior to their submission to the Management Board, the Risk Committee and the Board of Directors. It played a full role during 2018, particularly within the context of analyses of the risks of deviation from the strategic plan, the object of exchanges with the European Central Bank within the framework of the SREP.

Risk monitoring

Credit risk

Credit risk exposure

Dexia Crédit Local's credit risk exposure is expressed as Exposure at Default (EAD). It corresponds to the best estimate of credit risk exposure in the event of default. The definition of EAD used by Dexia Crédit Local is given in Note 7 in the Appendix to the consolidated financial statements.
On 14 December 2018, Dexia Crédit Local and the German banking group Helaba signed a sale agreement in relation to Dexia Kommunalbank Deutschland (DKD), the German subsidiary of Dexia Crédit Local. In compliance with the IFRS 5 accounting standard, DKD was classified as "discontinued operations" in the Dexia consolidated financial statements as at 31 December 2018. DKD exposures are therefore presented separately.
As at 31 December 2018, exposure to Dexia Crédit Local's credit risk was EUR 123.2 billion compared to EUR 141.4 billion at the end of December 2017, i.e. down 13%, linked to natural portfolio amortisation, asset disposals and early redemptions.
Exposure was for EUR 61 billion in loans and EUR 54 billion in bonds. It was for the most part concentrated in the European Union (79%) and the United States (12%).

EXPOSURE BY GEOGRAPHIC REGION

(in EUR million)	31/12/2017	31/12/2018		
		Total	o/w continuing operations	o/w discontinued operations (DKD)
France	28,198	22,270	22,216	54
Italy	22,993	21,811	20,974	837
United Kingdom	22,175	21,114	21,061	53
Germany	17,835	16,714	1,909	14,805
United States	17,439	14,994	14,842	152
Spain	10,010	7,321	7,294	28
Japan	6,143	5,459	5,459	0
Portugal	3,891	4,420	4,185	235
Belgium	1,623	1,933	515	1,418
Canada	2,071	1,882	1,882	0
Austria	1,058	1,023	10	1,014
Central and Eastern Europe[(1)]	954	888	888	0
Switzerland	357	353	353	0
South and Central America	430	345	345	0
Scandinavian countries	528	218	198	20
Southeast Asia	439	202	202	0
Greece	88	78	78	0
Netherlands	71	74	49	26
Luxembourg	35	48	48	0
Other[(2)]	5,070	2,084	1,817	267
TOTAL	**141,406**	**123,232**	**104,324**	**18,908**

(1) Excluding Austria and Hungary.
(2) Including supranationals, Australia and Dexia Israel (deconsolidated in 2018).

As at 31 December 2018 the majority of exposures remained concentrated on the local public sector and sovereigns (75%), taking account of Dexia Crédit Local's historical activity.
Exposure on France fell following asset disposals concentrated on the local public sector, natural portfolio amortisation and the reduction deposits with the Bank of France by virtue of the liquidity reserve.

EXPOSURE BY CATEGORY OF COUNTERPARTY

(in EUR million)	31/12/2017	31/12/2018		
		Total	o/w continuing operations	o/w discontinued operations (DKD)
Local public sector	75,609	65,801	49,138	166,663
Central governments	29,704	26,994	25,329	1,666
Financial institutions	13,135	10,428	9,871	557
Project finance	11,502	10,153	10,139	14
Corporate	5,792	5,719	5,718	0
ABS/MBS	4,183	2,666	2,657	9
Individuals, SME and self-employed	1,481	1,471	1,471	0
TOTAL	**141,406**	**123,232**	**104,324**	**18,908**

The quality of the Dexia Crédit Local credit portfolio remained high, with 91% of exposures rated investment grade as at 31 December 2018.

GROUP EXPOSURE BY RATING*

(in EUR million)	31/12/2017	31/12/2018 Total	o/w continuing operations	o/w discontinued operations (DKD)
AAA	21.0%	19.2%	18.5%	23.0%
AA	14.9%	17.0%	8.0%	66.3%
A	25.2%	25.2%	29.2%	3.4%
BBB	29.3%	29.4%	33.5%	6.6%
Non Investment Grade	8.4%	7.9%	9.2%	0.7%
D	0.8%	1.1%	1.3%	0.0%
Not Rated	0.4%	0.3%	0.3%	0.0%
TOTAL	**100%**	**100%**	**100%**	**100%**

* *Internal Rating System.*

Particular attention is paid to the sectors and countries listed in the following table in view of the significant amounts of exposure or the degree of sensitivity. The main developments and significant facts for those sectors and countries in 2018 are presented in the following paragraphs.

GROUP SECTOR EXPOSURE TO CERTAIN COUNTRIES

(in EUR million)	Total	o/w local public sector	o/w corporate and project finance	o/w financial institutions	o/w ABS/ MBS	o/w sovereign exposures	o/w monolines	o/w discontinued operations (DKD)
France	22,270	9,522	2,581	1,709	0	8,458	0	54
Italy	21,811	8,993	341	282	0	12,195	0	837
United Kingdom	21,114	9,918	8,006	1,131	1,312	61	686	53
Germany	16,714	13,983	126	2,211	0	395	0	14,805
United States	14,994	9,020	879	1,793	1,108	1,409	785	152
Spain	7,321	4,140	1,390	1,124	221	447	0	28
Japan	5,459	4,716	0	722	0	21	0	0
Portugal	4,420	1,532	70	9	13	2,796	0	235
Canada	1,882	922	813	147	0	0	0	
Poland	555	1	0	0	0	553	0	
Greece	78	1	77	0	0	0	0	
o/w discontinued operations (DKD)		*14,321*	*14*	*514*	*0*	*1,315*	*0*	*16,164*

Dexia Crédit Local commitments on sovereigns

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

In 2018, Dexia Crédit Local took advantage of favourable market conditions to dispose of some of its sovereign exposure, particularly on Japan. Exposure on the Japanese sovereign fell by EUR -565 million over the year 2018 and was EUR 21 million as at 31 December 2018.

Sovereign exposure on France was EUR 8.5 billion as at 31 December 2018, against EUR 10.2 billion as at 31 December 2017. The fall recorded over the year reflects the reduction of deposits with the Bank of France by virtue of Dexia Crédit Local's liquidity reserve.

The two main events in Europe were the arrival in power in Italy of a coalition in particular contesting European fiscal policy and the uncertainties surrounding the United Kingdom's exit from the European Union.

In Italy tensions arising with the change of political and economic direction resulted in a downgrade of the sovereign rating by Moody's. Dexia Crédit Local also made a downward revision to the internal rating attributed to Italy in the fourth quarter 2018, thus involving an increase of risk-weighted assets without nonetheless having an impact on collective provisions, the Italian sovereign remaining in stage 1.

Dexia Crédit Local's exposure to the United Kingdom sovereign is marginal (EUR 61 million). Overall exposure on the United Kingdom was nonetheless EUR 21 billion as at 31 December 2018, essentially relating to local authorities, Utilities (water, gas transmission and distribution and electricity), project finance and social housing, all rated in the investment grade category and for which Dexia Crédit Local does not anticipate any major negative impact in the short term as a result of Brexit.

Furthermore, Dexia Crédit Local made an upward revision to the internal rating for Portugal where the situation improved with the significant reduction of its foreign debt, the restructuring of its banking sector and several signs of robust economic recovery and diversified growth, thus involving a reduction of weighted assets and collective provisions.

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Dexia Crédit Local commitment to the local public sector

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

France

The quality of Dexia Crédit Local's portfolio, consisting mainly of outstanding on local authorities and social housing, remains very good, with a very limited number of payment incidents observed.
The year 2018 was marked by significant sales of loans within the framework of the balance sheet reduction programme (EUR 1.9 billion).
More detailed information on the sales of French local public sector loans are provided in the chapter entitled "Highlights" in this registration document.

Spain

The Spanish State's support to the regions and municipalities continued through the renewal of several financial support funds: EUR 29.9 billion was paid to the regions in 2018, particularly by the Autonomous Liquidity Fund (FLA), against EUR 31 billion granted in 2017. In consideration for such aid, the State control over regional or local finances was increased: the 2018 budgets were drawn up on the basis of a deficit target of 0.4% of GDP. By way of comparison, the deficit was 0.3% in 2017.
Catalonia is one of the main Spanish regions and a major centre of economic attractiveness for Spain, but its financial situation remains tense. It presents negative savings, heavy indebtedness and tight liquidity leading to dependence on short-term refinancing. As a consequence it benefits from support from the State. Following the election of new governments in Catalonia and in Spain, financial control by the Spanish state was raised. The region's finances nonetheless remain subject to control under the FLA. Dexia Crédit Local's exposure here was high (EUR 1.8 billion) but no payment incident was recorded, as for the other Spanish regions.
Exposure on the Region of Valencia (EUR 300 million) was significantly reduced in June and July 2018 following maturities falling for EUR 340 million.

United States

The majority of the exposures to the local public sector in the United States related to States (40%) and local authorities (28%). Like the US local public market, the Dexia Crédit Local portfolio is of good quality and is generally covered by monolines.
The main risks affecting the sector are medium and long-term risks relating to the increase of pension debts (with a pension reform capacity more or less significant depending on the legislative framework of each State) and the possible subordination of bond lenders vis-à-vis the beneficiaries of pension schemes, as in certain recent insolvencies (such as the city of Detroit).
In 2018, Dexia Crédit Local remained extremely vigilant as to the evolution of the US public sector, in particular the financial situation of the Chicago Board of Education (CBOE). This counterparty experienced financial difficulties due to a very high level of indebtedness, an under-financing of its pension funds and the ongoing decline of student registrations. Dexia Crédit Local's exposure to the CBOE was EUR 441 million as at 31 December 2018. Approximately 12% of the exposure is enhanced by Ambac. At the end of 2018, the provision on the CBOE was increased.
Finally, Dexia Crédit Local sold almost all of its exposures on public corporations associated with the Commonwealth of Puerto Rico, leading to a residual exposure of EUR 5 million as at 31 December 2018. This exposure is fully covered by a good quality monoline.

Dexia Crédit Local commitments to project finance and corporates

The project finance and corporate loans portfolio amounted to EUR 15.9 billion as at 31 December 2018, down 8% on the end of 2017. This portfolio contracted on the one hand as a result of natural amortisation and certain early redemptions and on the other hand following disposals.
The portfolio consists 64% of project finance[1], the balance being in finance to corporates, commercial transactions or corporate bonds. The portfolio is good quality: 78% project finance and 99% finance to corporates is rated investment grade.
The UK portfolio represents approximately 50% of the project finance portfolio (PPP) and corporates (utilities), and 97% of the exposure is rated investment grade. There is no anticipation of any significant negative short-term impact following Brexit, even in the event of a non-deal departure from the European Union.

Dexia Crédit Local commitments to ABS

In 2018, Dexia Crédit Local continued the voluntary reduction of its ABS portfolio. Taking advantage of favourable market conditions, the Group in particular disposed of ABS on US government student loans.
As a consequence, as at 31 December 2018, the Group's ABS portfolio was down 36% compared to 31 December 2017, at EUR 2.8 billion. ABS student loans still represent a important part of the portfolio (EUR 1 billion). A portion of these loans is guaranteed by the US Federal State and present a rather long amortisation profile and a limited expected loss. The balance consists for the most part of residential mortgage-backed securities (RMBS) for EUR 0.3 billion, of which EUR 0.2 billion in Spain.
The quality of the portfolio remained stable overall with 96% of the portfolio rated investment grade at the end of December 2018, almost all of the tranches in which Dexia Crédit Local has invested being at a senior level.

Dexia Crédit Local commitments to financial institutions

Dexia Crédit Local commitments to financial institutions were EUR 10.4 billion as at 31 December 2018.
Dexia Crédit Local's exposure to the Italian banking system was limited to EUR 281 million as at 31 December 2018.
Finally, the evolution of the Deutsche Bank group continues to be monitored carefully given certain negative credit elements such as poor profitability and an uncertain strategic positioning. Dexia Crédit Local's exposure to this group was EUR 0.9 billion as at 31 December 2018.

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

Dexia Crédit Local commitments to monolines

Dexia Crédit Local is indirectly exposed to monolines in the form of financial guarantees covering timely payment of the principal and interest payable on credits on certain bonds and loans. Claims against monoline insurers only become payable if real defaults occur in the underlying assets. Dexia Crédit Local's enhanced bonds benefit from increased trading values and, in some cases, a reduction of capital in view of the credit enhancement provided by monolines.

As at 31 December 2018, the amount of exposures enhanced by monolines was EUR 13.8 billion, of which 77% of exposures assets insured by monolines rated investment grade by one or more external rating agencies. All but FGIC continue to honour their original commitments.

Impairment on counterparty risk – asset quality

ASSET QUALITY

(in EUR million)	31/12/2017 IAS 39	31/12/2018 IFRS 9
Impaired assets(1)	876	1,271
Specific impairments(2)	256	304
Of which Stage 3		297
POCI		6
Coverage ratio(3)	29.3%	23.9%
Collective provisions	327	345
Of which Stage 1		5
Of which Stage 2		340

(1) Outstanding computed according to the applicable perimeter defined under IFRS 9 (fair value through equity + amortized cost + off balance).
(2) Impairments in line with the portion of the portfolio taken into account for the calculation of the outstanding, including impairments related to Purchased or Originated Credit Impaired (POCI).
(3) Specific impairments-to-Impaired assets ratio.

The year 2018 was marked by the first-time application of the IFRS 9 accounting standard as at 1 January. Implementation of the new credit risk provisioning model under IFRS 9 was reflected by an increase of impairments by EUR 183 million as at 1 January, of which an allocation of EUR 191 million as collective provisions, offset by a reversal of EUR 8 million of specific provisions (cf. section dedicated to the first-time application of the IFRS 9 accounting standard in the chapter entitled "Financial results" in this registration document.

Dexia's stock of impaired assets was EUR 1,271 million as at 31 December 2018, up EUR 395 million on the end of 2017. Specific provisions allocated were EUR 304 million, up EUR 48 million on 31 December 2017.

This increase of impaired assets and specific provisions is essentially explained by the increase of the provision on the Chicago Board of Education, and the provisioning of a Spanish asset financing and receivables on a French hospital association.

Furthermore, the disposal of several exposures associated with the Commonwealth of Puerto Rico as well as the repayment of debts associated with the Bulgarian railway sector allowed for the reversal of provisions established on those exposures.

As a consequence, the coverage ratio was 23.9% as at 31 December 2018.

As at 31 December 2018, collective provisions were EUR 345 million, of which EUR 5 million of provision stage 1 and EUR 340 million of provision stage 2. The stage 2 provision is established for a little more than one half by provisions on the Portuguese sovereign and on Portuguese local authorities following downgrades of rating since origin.

The increase linked to the first application of IFRS 9 is partially offset by:

- the natural amortisation of assets over the year;
- the continuation of disposal programmes particularly on French public sector outstanding;
- the evolution of exchange rates.

Despite 90% of the Group's assets being rated investment grade, some counterparties may have suffered a significant increase in credit risk since their initial recognition, like the exposure on the Portuguese sovereign, which was classified in stage 2 as of 1 January 2018. Other investment grade counterparties, mainly related to the Italian sovereign and to the US local public sector might be reclassified from stage 1 to stage 2 depending on economic and financial developments and their own financial situation. Taking into account the amount of exposure involved and the maturity of those assets, a reclassification to stage 2 might have a significant impact on the Group's financial statements.

In order to facilitate the monitoring and comparison between different European banks, the European Banking Authority harmonised the definition of Non-Performing Exposure (NPE) and Forbearance practices.

- Non-performing exposures bring together outstanding amounts unpaid for more than 90 days or for which the Group considers that the counterparty is unable to repay without implementing guarantees. As at 31 December 2018, the outstanding amount on non-performing exposures represented EUR 2.1 billion, corresponding to 88 counterparties. The EUR 0.5 billion increase is linked to the default of new counterparties such as the CBOE, in an amount of EUR 441 million.
- The definition of Forbearance brings together the facilities granted by banks to counterparties experiencing or about to experience financial difficulties in dealing with their commitments (facilities which the banks would not otherwise have granted). As at 31 December 2018, 43 counterparties were the object of Forbearance, in an outstanding amount of EUR 0.6 billion.

Market risk

Risk measurement

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

- Value at Risk (VaR) measures the expected potential loss for a 99% confidence interval and for a ten-day holding period. Dexia Crédit Local relies on a VaR parametric to measure the market risk inherent in the various portfolios and activities. The method of this VaR is based on a normal distribution of yields relating to risk factors.
- Limits in terms of positions, maturity, market and authorised products are put in place per type of activity. They guarantee consistency between global risk limits and the operational thresholds used by the front office.

The risk management system is completed by stress tests, which include events outside the probabilistic framework of VaR measurement techniques. The different assumptions of these degraded scenarios are regularly reviewed and updated. The consolidated stress test results and the corresponding analysis are presented to the Risk Committee on a quarterly basis.

Exposure to market risk

The Dexia Crédit Local trading portfolio is composed of two groups of activity:
- Transactions initiated by financial instrument trading activities until the date on which the Dexia Group was placed in orderly resolution, mostly covered back-to-back;
- Transactions intended to hedge risks arising from disinvestments or asset sales within the framework of the orderly resolution plan.

The main risk factors of the trading portfolio are:
- Interest rate risk, in particular on the euro zone and the dollar zone;
- Cross currency basis swap risk;
- Basic risk BOR-OIS in the same currency.

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

Value at Risk (VaR)

The detail of the VaR of the trading portfolios is presented in the following table. At the end of December 2018, total consumption in VaR was EUR 1.7 million against EUR 3.3 million at the end of 2017. This fall is explained in particular by the reclassification as at 1 January 2018 of residual positions of securities in the trading portfolio to the banking portfolio, bringing the VaR to zero. It is to be noted that Dexia Kommunalbank Deutschland (DKD) has no trading portfolio.

VALUE AT RISK OF THE TRADING PORTFOLIO

(in EUR million)	2017				2018			
VaR (10 days, 99%)	Interest	Spread	Other risks	Total	Interest	Spread	Other risks	Total
Average	2.5	3.8	0.1	6.5	1.5	0	0	1.5
End of period	1.5	1.8	0.1	3.3	1.7	0	0	1.7
Maximum	3.0	4.2	0.1	7.3	1.9	0	0	1.9
Minimum	1.5	1.8	0.1	3.3	1.2	0	0	1.2

Sensitivity of banking portfolios classified at fair value through equity to the evolution of credit spreads

With the entry into application of IFRS 9, the sensitivity to an increase of credit spreads in the income statement as well as the result directly recognized in equity evolved both in nature and in magnitude.

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

Under IFRS 9, the portfolio classified at fair value through consists of securities and loans and presents sharply reduced sensitivity to an increase of credit spreads. It was EUR -2.8 million as at 31 December 2018 (EUR -2.7 millions excluding discontinued operations– DKD). Furthermore, the portfolio classified at fair value through profit and loss in view of its "non-SPPI" nature, also consisting of securities and loans, presents a sensitivity to an increase of credit spreads of EUR -2.3 million as at 31 December 2018 (EUR -1.9 million excluding discontinued operations – DKD).

Transformation risk

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

Management of interest rate and exchange rate risk

Measurement of interest rate risk

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

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

The sensitivity of long-term ALM was EUR -14.1 million as at 31 December 2018, (EUR -15.2 million excluding discontinued operations – DKD), against EUR +13.9 million as at 31 December 2017. This is in line with the ALM strategy, which seeks to minimise net interest margin volatility.

(in EUR million)	2017	2018
Sensitivity	13.9	(14.1)
Limit	+/-80	+/-80

Measurement of foreign exchange risk

With regard to foreign exchange, the ALCO decides on the policy to hedge foreign exchange risk generated by the existence of assets, liabilities, income and expenditure in foreign currencies. Also subject to regular monitoring are:
- The structural risks associated with the funding of holdings in foreign currencies;
- Elements liable to increase the volatility of the solvency ratios of the Group or its subsidiaries and branches.

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

Management of liquidity risk

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

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

The liquidity management process aims to optimise the coverage of Dexia Crédit Local's funding requirements taking into account the constraints to which it is exposed. Funding requirements are assessed, taking existing transactions into account as well as planned on and off-balance-sheet forecasts. Dexia Crédit Local has a liquidity buffer, consisting of deposits with central banks and liquid assets on the repo market, enabling it to deal with stressed situations for at least one month without the need to take contingency measures.
To manage the bank's liquidity situation, the Management Board regularly monitors the conditions for funding transactions on the market segments on which Dexia Crédit Local operates. It also guarantees proper execution of the funding programmes put in place. To that end, a specific and regular mode of information has been introduced:

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

Liquidity risk measurement

In 2015, the European Central Bank (ECB) decided to apply a tailored, pragmatic and proportionate supervisory approach to Dexia Crédit Local, taking into consideration its specific and unique situation of being a bank in resolution. This approach was applied until 2017.
In 2018, this approach was renewed, accompanied by a convergence towards the general supervisory framework, reflected by the strengthening of certain requirements, in particular regarding observance of the Liquidity Coverage Ratio (LCR).
Dexia Crédit Local posted a consolidated LCR ratio of 200% as at 31 December 2018, against 111% as at 31 December 2017, in line with these requirements. This ratio is also respected at subsidiary level, each exceeding the required minimum of 100%.
Furthermore, the ECB informed the Dexia Group that as from 1 January 2019, the approach of specific supervision would not be renewed. As for liquidity, Dexia Crédit Local must therefore observe all the regulatory requirements applicable to banking institutions supervised by the ECB, at every level of the consolidation.

Operational risk and IT systems security

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

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

Risk measurement and management

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

• Operational risk database: the systematic capture and monitoring of operational incidents is one of the most important requirements of the Basel Committee. Fulfilling its regulatory obligations, Dexia Crédit Local has put a system in place to list operational incidents and to gather specific data. The information gathered enables it to improve the quality of its internal control system.
• Over the last three years, 99% of losses under the Basel definition originated from the category "Execution, Deliveries and Process Management". The other categories ("Customers, Products and Business Practices", "Failure of Systems or IT Infrastructure" and "External Fraud") represent 45% of the total number of incidents but less than 1% of total losses. Most operating incidents are declared on a failure of a business line process, an incident the direct cause of which is often a failure in the correct operation of IT systems.
The principal incidents are subject to corrective actions approved by the management bodies:
• Risk self-assessment and control: as well as building a history of losses, Dexia Crédit Local's exposure to key risks is determined via an annual risk mapping exercise. All Dexia Crédit Local entities conduct risk self-assessment exercises that take into account existing controls, thus providing an overall view of all the areas of risk within the various entities and businesses. The overall mapping is presented each year to the Management Board. Actions to limit risk may be defined where applicable;
• Definition and monitoring of action plans: remedial actions are defined to avoid major incidents recurring, to correct deficient controls or to reduce important risks identified. Regular monitoring is carried out by the operational risk management function. This process allows the internal control system to be constantly improved and risks to be reduced appropriately over time;
• Key Risk Indicators (KRI): KRI have been developed and enable the Operational Risk Committee to monitor the evolution of the principal risks identified in the operational risk mapping.
• Information security management: the information security policy and the associated instructions, standards and practices are aimed at ensuring that Dexia Crédit Local's information assets are secure;
• Activity continuity management: all the activities take place in a secure environment. The business lines establish impact analyses for vital activities in the case of disaster or interruption. They define and then regularly update recovery plans.

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

Management of operational risk during the period of resolution

In 2018, Dexia Crédit Local continued to adapt its structure and its operational processes to its mandate of orderly resolution. This resolution phase is by its nature propitious to the development of operational risks, particularly from elements such as the departure of key individuals, or changes to treatment processes. In particular, projects to outsource certain activities may represent a source of operational risk during phases of preparation and implementation but are aimed over the longer term at guaranteeing the bank's operational continuity and at limiting the operational risks associated with systems, processes and people.
During the phase of implementing the outsourcing agreement with the service provider Cognizant, outsourcing risks were monitored by the Dexia Crédit Local Risk Management to ensure the proper implementation of operations and risk governance via joint Dexia Crédit Local / Cognizant committees. A specific team was created to check the provision and quality of the services provided by Cognizant, whilst the effective supervision of outsourced activities was realised by the Internal Control of the Dexia Crédit Local and Cognizant entities. In particular, a specific projects programme was launched by Dexia Crédit Local and Cognizant to achieve the objectives defined in the outsourcing agreement regarding IT systems security.
Finally, at Dexia Crédit Local, psycho-social risks are carefully monitored, accompanied by prevention and assistance actions.
More detailed information on the actions taken by Human Resources to mitigate operational risk are provided in the chapter entitled "Non-financial declaration. Corporate, social responsibility" in Dexia's annual report.

Stress tests

Stress tests and scenario analyses

In line with the final versions of the EBA guidelines published in July 2018 – *Guidelines on the revised common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing* and *Guidelines on institutions' stress testing* – and the requirements formulated by the European Central Bank in November – *ECB Guide to the internal capital adequacy assessment process (ICAAP)* et *ECB Guide to the internal liquidity adequacy assessment process (ILAAP)* – for application as from 1 January 2019, Dexia Crédit Local performs multiples scenario analysis exercises and stress tests in a transversal and integrated approach to the Group's risk management process. This is a complete programme of stress tests in observance of the EBA guidelines which guarantees consistent articulation between the different types and granularities of stress.
Globally and transversally, these stress tests consist of sensitivity analyses, scenario impact analyses at multiple levels of severity and reverse stress tests. They exhaustively cover all the bank's risks, particularly and principally credit and counterparty risks, market and exchange risks, liquidity risks, rate risks specific to banking portfolios (excluding the trading portfolio), operational risks including legal risks and concentration risks.

In addition to the stress tests performed within the framework of the ICAAP/ILAAP described below, Dexia Crédit Local has principally developed:
• Specific credit stress tests for the main asset classes. In particular, within the framework of Basel Pillar 1, the credit exposures covered by internal rating systems were subjected to sensitivity tests, of macroeconomic, historic and expert scenarios.
• Market stress tests (highlighting potential events outside the probability of VaR measurement techniques). They have been divided into tests of unique risk factors, tests of historic scenarios, tests of hypothetical scenarios and reverse stress tests.
• Stress tests associated with the structural interest rate risk enabling the potential impact on Dexia Crédit Local equity of a sudden and unexpected fluctuation of interest rates, to be measured, responding to regulatory expectations;
• Liquidity stress tests enabling additional liquidity requirements to be estimated in exceptional but plausible scenarios at different time horizons up to two years. Their aim is to identify possible vulnerabilities and simultaneously in an adverse shock situation to assess the possible increase of risk-weighted assets, additional liquidity requirements or capital requirements;
• A series of internal transversal stress tests, complementary to and consistent with those of the ICAAP and ILAAP processes, relying on macroeconomic scenarios simulating crisis situations for Dexia Crédit Local for the purpose of internal analyses of capital adequacy and the risks of deviations from the strategic plan. Described in more detail below, they were approved internally and forwarded to the supervisory authorities on various occasions in 2018, in addition to the formal documentation of the ICAAP and ILAAP processes.
More specifically, for regulatory stresses of the ICAAP and ILAAP type, as defined in the EBA guidelines, and in association with reviews of financial plans over multiple horizons, Dexia Crédit Local performed a complete review of its vulnerabilities to cover all material risks associated with its business model under stresses macroeconomic and financial conditions in addition to reverse stress tests. In accordance with regulatory requirements, the documentation for the ICAAP 2018 annual exercise was forwarded to the ECB.
The ICAAP stress tests form an integral part of the bank's reporting system, and its risk appetite framework (RAF), and are incorporated in the definition and review of global strategy. They systematically complete the financial planning process. The link between risk tolerance, adaptations to the strategic plan for resolution and the ICAAP and ILAAP stress tests is also guaranteed by specific consumption and capital adequacy indicators forming part of the RAF.

Litigation

Like many financial institutions, Dexia is subject to several regulatory investigations and is named as a defendant in a number of lawsuits. Moreover, the reduction of the Group's scope, along with some measures implemented within the framework of Dexia's resolution, has raised questions from some of its stakeholders or counterparties. Unless otherwise indicated, the status of such disputes and investigations is summarised below as at 31 December 2018 and based on information available to Dexia on that date.

On the basis of the information available to Dexia on that date, other disputes and regulatory investigations in which an entity of the Dexia Group is named as a defendant and regulatory investigations impacting the Group entities are either not expected to have a material impact on the Group's financial position or it is too early accurately to assess whether they may have such an impact.
The consequences, as assessed by Dexia in accordance with the information available to it on the aforementioned date, of the principal disputes and investigations liable to have a material impact on the Group's financial position, performance or activities are reflected in the Group's consolidated financial statements.

Dexia Crediop

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

Cases concerning hedging transactions

In 2017, the Court of Appeal in London issued a judgment in the Prato case by means of which the Court confirmed (i) that derivative contracts entered into between Dexia Crediop and its clients in the period 2002 - 2006 were valid and binding, (ii) that those clients had full capacity to enter into the derivative contracts and (iii) that the margin applied by the bank to the derivative contracts was necessary to cover its risks and expected costs and the concept of "implicit costs" was unfounded. Prato was ordered, inter alia, to reimburse the legal costs of Dexia Crediop and to pay default interest on the unpaid compensation. The Supreme Court confirmed the decision of the Court of Appeal.
Following these decisions, in 2018 Dexia Crediop and Prato entered into an out-of-court settlement agreement by means of which, the client (i) recognised that the swap contracts were legal, valid and binding and (ii) withdrew the appeal against the judgement by the Prato Criminal Court and against the appeal made by before the Council of State. During 2018, Dexia Crediop entered into other amicable settlements with other parties which expressly confirm the legal, valid and binding nature of the derivative contracts which had been concluded.
Criminal proceedings commenced before the Court of Appeal in Florence concerning the Prato case are still ongoing whilst in 2017, the Prato Criminal Court passed a judgement of acquittal against which the Chief Prosecutor decided to lodge an appeal.
In 2018, Dexia Crediop commenced proceedings in London against the City of Messina, following persistent payment defaults by the latter, justified by the alleged illegality of derivative contracts, despite several decisions by the Italian courts rejecting the client's applications for compensation.

Other litigation involving Dexia Crediop

In 2016, Dexia Crediop was summoned to appear before the Civil Court in Rome by PICFIC (*Provincia Italiana della Congregazione dei Figli dell'Immacolata Concezione*), currently in extraordinary administration, This summons was aimed at obtaining a declaration confirming that debt disposals concluded with Dexia Crediop in 2012 were null and void (recovery action). In an indirectly linked action commenced by Dexia Crediop in 2014 and aimed at obtaining payment of the unpaid balance of the debts assigned, the Court of Appeal in Rome partially admitted the application by Dexia Crediop at the beginning of 2019. Dexia Crediop is currently assessing the opportunity to lodge an appeal before the Italian Supreme Court.
Dexia Crediop is involved in litigation concerning the Istituto per il Credito Sportivo ("ICS"), an Italian public bank in which Dexia Crediop is a quota holder, together with other Italian private financial institutions. In 2012, the administrators of ICS challenged the nature of the subsidies granted to ICS, which were reclassified as equity, and decided to annul the articles of association of ICS and the distributions of dividends since 2005. In September 2015, the Council of State confirmed the annulment of the ICS articles of association, in particular stating that the decisions on dividend distributions are subject to the jurisdiction of the civil courts. The civil proceedings relating to the distributions of dividends and the new ICS articles of association are ongoing.
Dexia Crediop is also involved in two other legal cases before the Italian civil courts, in which the client questions the validity of a part of a loan contract, in particular claiming the existence of an embedded derivative contract.
At present, Dexia Crediop is unable reasonably to predict the duration and outcome of these proceedings, and their potential financial repercussions.

Dexia Crédit Local

Dexia Crédit Local (DCL) is involved in a number of cases brought by local authorities to which it had granted structured loans. As at 31 December 2018, 30 clients had issued summonses against DCL in connection with structured loans, of which 16 concern structured loans held by the Société Française de Financement Local (SFIL), parent company of the Caisse Française de Financement Local (CAFFIL). 12 concern structured loans held by DCL and 2 concern both institutions.
On 28 March 2018, the French Supreme Court validated the favourable decision of the Court of Appeal in Versailles concerning the structured loans held by CAFFIL and confirmed the validity of those structured loans which were not qualified as "financial and speculative products". The Supreme Court also decided that DCL assumed no liability for the sale of such structured loans.
As explained in previous annual reports, DCL was also summoned concerning loans granted to private law entities and for which the courts continue to annul clauses linked to the interest rate of the loan in view of the absence of reference to the Annual Percentage Rate (APR) in the fax confirmation prior to conclusion of the loan contract.
On 11 August 2018, the Law authorising the government to amend the APR regulations by government order was passed (Article 55.I of the French Law No 2018-727).
In spite of the aforementioned developments, at present DCL is unable reasonably to predict the duration or outcome of the remaining investigations and legal proceedings in progress, or their potential financial repercussions.

Dexia Kommunalbank Deutschland

Dexia Kommunalbank Deutschland (DKD) was also summonsed in a small number of disputes relating to structured loans. One case, in which the loan interest is linked to the exchange rate for the Swiss franc against the euro and which was won by DKD at first instance, is still ongoing following an appeal lodged by the plaintiff. The parties are currently examining the possibility of an agreement.
In two other cases, the holders of profit-sharing rights have proceeded against DKD. In the first case, the decisions passed at first and second instance have been in favour of DKD. In the second case, a first partial judgement was passed at first instance in March 2017, principally in favour of DKD. The appeal proceedings, commenced by the plaintiff, are still ongoing. As for the remaining part of the compensation claim, on which there has not yet been a judgement, the court suggested that the action be withdrawn. However the plaintiff decided to continue and even extended the action. DKD is convinced that the final judgement will be in its favour, considering the jurisprudence relating to similar cases.
Despite the developments explained above, at the present time DKD is unable reasonably to predict the duration or outcome of the remaining investigations and legal proceedings in progress, or their potential financial repercussions.

Information on capital and liquidity

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

Share capital

Share capital and number of shares

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

Shareholding structure

Dexia Crédit Local's share capital is held directly and almost exclusively by Dexia. The Chief Executive Officer holds one (1) registered share in the company.
Indirectly, through Dexia, Dexia Crédit Local's capital is held 52.78% by the Federal Holding and Investment Company (FHIC) acting under delegation on behalf of the Belgian government and 46.81% by the French government.

As at 31 December	2014	2015	2016	2017	2018
Capital (in EUR)	223,657,776	223,657,776	279,213,332	279,213,332	279,213,332
Number of shares	223,657,776	223,657,776	279,213,332	279,213,332	279,213,332
Dexia	223,657,764 shares	223,657,770 shares	279,213,331 shares	279,213,331 shares	279,213,331 shares
Individual investors (directors)	12 shares	6 shares	1 share	1 share	1 share

Dividends paid during the past five years

No dividends have been paid in respect of the past five years and the Board of Directors will propose at the next shareholders' meeting that no dividend be paid in respect of 2018.

Prudential capital and solvency

Dexia Crédit Local monitors its solvency using rules established by the Basel Committee on Banking Supervision and European Directive CRD IV. On the other hand, the bank ensures observance of the capital requirements imposed by the European Central Bank (ECB), within the framework of Pillar 2 of Basel III, following the Supervisory Review and Evaluation Process (SREP).
The year 2018 was marked by the first application of the IFRS 9 account standard, which had a positive impact on the Group's prudential capital.

Prudential requirements applicable to Dexia with regard to solvency

On 14 February 2019[1], the ECB informed the Dexia Group of the qualitative and quantitative prudential requirements with regard to solvency applicable to Dexia, Dexia Crédit Local and its subsidiaries as from 1 March 2019, in accordance with Council Regulation (EU) 1024/2013 dated 15 October 2013. These requirements are based in particular on the conclusions of work carried out by the ECB within the framework of the Supervisory Review and Evaluation Process, (SREP).

(1) Cf. Dexia Press Release dated 18 February 2019, available at www.dexia.com.

The Total SREP Capital Requirement (TSCR) has been set at 11% on a consolidated basis. This level includes a minimum own funds requirement of 8% (Pillar 1) and an additional own funds requirement of 3% (P2R – Pillar 2 Requirement). By including the capital conservation buffer of 2.5%, as well as the countercyclical buffer relating to exposures in France and the United Kingdom, estimated at 0.35%, this takes the own funds requirement to 13.85%.
In addition the ECB expects Dexia and Dexia Crédit Local to comply with Pillar 2 capital guidance (P2G) of 1%, to be held over the level of 13.85% and to be made up entirely of Common Equity Tier 1 capital (CET 1).
As a consequence, the minimum level of the CET1 ratio goes to 11.35%, taking account of P2G.

Regulatory capital

Total capital can be broken down as follows:
- Common Equity Tier 1 capital, including in particular:
  - share capital, issuance premiums, retained capital,
  - profits for the year,
  - gains and losses directly recognised in equity (revaluation of instruments at fair value through equity, revaluation of cash flow hedge derivatives, translation adjustments actuarial differences on defined benefit plans)
  - the eligible amount of non-controlling interests,
  - after deduction of intangible assets, goodwill, accrued dividends, own shares, the amount exceeding thresholds provided with regard to deferred tax assets and for holding shares and interests in credit or financial institutions, irrevocable payment commitments (IPC) to resolution funds and other guarantee funds, the amount for persistent breaches of the

large exposure constraint[1] and elements subject to prudential filters (own credit risk, Debit Value Adjustment, cash flow hedge reserve, Prudent Valuation).

- Additional Tier 1 including Tier 1 subordinated debt;
- Tier 2 Capital which includes the eligible portion of Tier 2 subordinated debt as well as surplus provisions on the level of expected losses, reduced by the surplus amount of thresholds provided with regard to holding subordinated debt issued by financial institutions.

(1) On the request of the European Central Bank, Dexia Crédit Local must deduct from its Common Equity Tier 1Capital the economic impact which might be generated by remediation on a failure to observe the constraint regarding large exposures (Cf. Dexia Press Release dated 5 February 201, available at www.dexia.com).

In accordance with regulatory requirements and applicable transitional provisions:

- Dexia Crédit Local uses a dynamic approach to mitigating the impact of the new IFRS 9 provisioning model on prudential capital. This is spread over five years. In 2018, the effect of increasing provisions for expected credit losses in view of the application of the IFRS 9 accounting standard was 95% mitigated.
- Certain adjustments on subordinated and hybrid debt are taken into consideration in the calculation of capital in order to reflect the loss-absorption characteristics of these instruments.

PRUDENTIAL CAPITAL

(in EUR million)	31/12/2017 IAS39	31/12/2018 IFRS 9
Total Capital	**5,629**	**7,134**
Common Equity Tier 1 Capital	**5,354**	**7,012**
Core shareholders' equity	7,809	7,190
Eligible gains or losses directly recognised in equity (*)	(2,605)	(176)
Cumulative translation adjustments (group share)	120	135
Actuarial differences on defined benefit plans	0	0
Non-controlling interests eligible in Tier 1	197	148
Mitigation at 95% of the effect of the increase of expected credit losses following the application of IFRS 9		168
Items to be deducted		
Intangible assets and goodwill	*(34)*	*(37)*
Ownership of Common Equity Tier 1 instruments in financial institutions (>10%)	*0*	*0*
Own Credit Risk	*0*	*0*
Debit value adjustment	*(48)*	*(52)*
Prudent valuation	*(84)*	*(227)*
Deduction of irrevocable payment commitments to resolution funds and other guarantee funds		*(47)*
Deduction for persistent breaches of the large exposure constraint	*0*	*(90)*
Additional Tier 1 Capital	**28**	**22**
Subordinated debt	28	22
Items to be deducted		
Ownership of Tier 1 instruments in financial institutions (>10%)	0	*0*
Tier 2 Capital	**247**	**100**
Subordinated debt	33	34
Of which additional Tier 1 reclassified	*28*	*34*
IRB provision excess (+); IRB provision shortfall 50% (-)	214	66
Items to be deducted		
Ownership of Tier 2 instruments in financial institutions (>10%)	0	*0*

(*) 2017: Eligible amount of available for sale reserve, reserve for reclassified financial assets and cash flow hedge reserve as well as eligible gains or losses directly recognised in equity for non current assets held for sale.
2018: Revaluation reserve of financial assets at fair value through equity, cash flow hedge reserve and gains or losses recognised directly in equity for assets held for sale.

As at 31 December 2018, Dexia Crédit Local 's Total Capital was EUR 7.1 billion, compared to EUR 5.6 billion as at 31 December 2017.

At the same date, Dexia Crédit Local's Common Equity Tier 1 capital was EUR 7.0 billion, compared to EUR 5.4 billion as at 31 December 2017.

The first-time application of the IFRS 9 accounting standard on 1 January 2018 led to an increase of EUR +2.0 billion in Dexia Crédit Local's Common Equity Tier 1 capital, mainly due to the cancellation of unrealised gains and losses recognised in equity under IAS 39 (cf. section "Impact of the first-time application of the IFRS 9 accounting standard for Dexia Crédit Local" in the chapter entitled "Financial Results").

Dexia Crédit Local's Common Equity Tier 1 capital as at 31 December 2018 was burdened by the negative net income for the year (EUR -256 million).

In line with European Central Bank requirements, two items are deducted from regulatory capital for a total of EUR -137 million:

- The theoretical loss amount corresponding to the remediation of the non-compliance with the large exposure constraint, which amounts to EUR -90 million[2];

(2) Cf. Dexia press releases dated 5 February and 26 July 2017, available at www.dexia.com.

• The amount of irrevocable payment commitments (IPC) to resolution funds and other guarantee funds, for an amount of EUR -47 million.

As at 31 December 2018, Dexia Crédit Local's Tier 1 hybrid capital securities represented a nominal total of EUR 56 million, including EUR 22 million eligible as additional Tier 1.

No hybrid debt buyback was carried out in 2018, in line with the prohibition imposed by the European Commission and communicated by Dexia on 24 January 2014[1]. Dexia Crédit Local's hybrid Tier 1 capital therefore consists of: EUR 56.25 million nominal of perpetual non-cumulative securities issued by Dexia Crédit Local. These securities (FR0010251421) are listed on the Luxembourg Stock Exchange.

Tier 2 Capital amounted to EUR 100 million as at 31 December 2018 and included the additional Tier 1 reclassified and the IRB provision excess.

Dexia's revised orderly resolution plan includes certain restrictions concerning the payment of coupons and the exercise of calls on subordinated debt and hybrid capital from the Group's issuers. In this way, Dexia Crédit Local is only required to pay coupons on hybrid capital and subordinated debt instruments if there is a contractual obligation to do so. In addition, Dexia Crédit Local cannot exercise any discretionary options for the early redemption of these securities. Finally, Dexia Crédit Local is not authorised to repurchase its hybrid capital debt (FR0010251421), as creditors must share in the financial burden resulting from the restructuring of financial institutions which have been granted State aid.

In February 2019[2], the Belgian and French States notified the European Commission of the renewal, beyond 31 December 2021, of the funding guarantee from which Dexia Crédit Local benefits. On the basis of the draft currently envisaged, the commission which Dexia Crédit Local would pay to the States in the case of liquidation by virtue of remuneration for the guarantee could absorb the net proceeds of the liquidation of Dexia and Dexia Crédit Local, with the result that the holders of Dexia Crédit Local hybrid Tier 1 debt would receive no proceeds.

Risk-weighted assets

As at 31 December 2018, risk-weighted assets decreased compared to the end of December 2017, to EUR 30.2 billion as at 31 December 2018, of which EUR 28.5 billion for credit risk, EUR 0.7 billion for market risk and EUR 1 billion for operational risk.

To recall, at the end of 2017, they were at EUR 33.2 billion, of which EUR 31.2 billion for credit risk.

RISK-WEIGHTED ASSETS

(in EUR million)	31/12/2017 IAS 39	01/01/2018 IFRS 9	31/12/2018 IFRS 9
Credit risk	31,197	32,576	28,487
Market risk	980	980	695
Operational risk	1,000	1,000	1,000
Total	33,177	34,556	30,182

Solvency ratios

Dexia Crédit Local's Common Equity Tier 1 ratio was 23.2% as at 31 December 2018, against 16.1% at the end of 2017. The Total Capital ratio was 23.6%, against 17.0% at the end of 2017, a level higher than the minimum imposed for the year 2018 by the European Central Bank within the framework of the Supervisory Review and Evaluation Process (SREP). On-site inspections (OSI) by the supervisors are currently ongoing, in particular an inspection with regard to credit risk. Dexia Crédit Local will integrate the conclusions of such inspections, which might have an impact on its solvency ratios, when they are communicated.

SOLVENCY RATIOS

	31/12/2017 IAS 39	01/01/2018 IFRS 9	31/12/2018 IFRS 9
Common Equity Tier 1 ratio	16.1%	21.2%	23.2%
Total Capital ratio	17.0%	21.7%	23.6%

Liquidity management

As a result of the reduction of the asset portfolio and the decrease of cash collateral (total net amount of EUR 22.7 billion as at 31 December 2018), funding outstanding decreased by EUR -18.5 billion, compared to the end of December 2017, to EUR 106 billion at the end of December 2018. The adjustment of the funding mix was achieved through the reduction of secured funding (EUR -14.1 billion compared to the end of 2017) due to the sale of the underlying assets and the termination of Dexia Crediop's domestic repo platform. There was also a reduction of unsecured funding (EUR -4.3 billion compared to the end of December 2017), half of which was due to the decrease of State-guaranteed funding, bringing the outstanding amount to EUR 65.5 billion at the end of December 2018, or 62% of the total outstanding amount of funding at that date.

Over the year, Dexia Crédit Local successfully launched various long-term public benchmark transactions in euros, US dollars and pounds sterling, raising EUR 7.3 billion at a particularly competitive funding cost. Short-term funding activity in guaranteed format was also strong, with an average maturity at issuance of 8.5 months.

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

As at 31 December 2018, Dexia Crédit Local had a liquidity reserve of EUR 16.3 billion, of which EUR 9.1 billion in the form of cash deposits with central banks.

As at the same date, Dexia Crédit Local's Liquidity Coverage Ratio (LCR) stood at 200%, compared with 111% as at 31 December 2017. This was also respected at the subsidiary level, each exceeding the required minimum of 100%. The Net Stable Funding Ratio (NSFR), estimated on the basis of the latest proposals to amend the CRR, would be above the target threshold of 100%, as a result of Dexia Crédit Local's efforts since 2013 to improve its funding profile.

(1) Cf. Dexia press release dated 24 January 2014, available at www.dexia.com.
(2) Cf. Dexia press release dated 26 February 2019, available at www.dexia.com.

Information on internal and external control

Internal control

Principal characteristics of the internal control system

Nature and objectives of internal control

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

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

The control function contributes to:

• The effectiveness of the risk management process: the aim of the internal control function is to guarantee that the bank's activities are conducted with a degree of control over risks compatible with the level of risks accepted by the Board of Directors;

• Compliance with laws and regulations: internal control contributes to guaranteeing that Dexia and its subsidiaries fulfil its legal and regulatory obligations;

• The effectiveness and security of operational processes: internal control contributes to the proper functioning of operational processes and the effectiveness of operations, the integrity of information and compliance with decisions taken;

• The accuracy of accounting and financial information: internal control contributes to giving an assurance of the pertinence, accuracy, regularity, exhaustiveness and transparency of the production of accounting and financial information.

General architecture of the function

The general architecture of the internal control function of the Dexia Group is based on organisation at three levels:

• **The first level of control** is performed by each employee and their superiors, in accordance with responsibilities that have been expressly delegated to them, procedures applicable to the activity they perform, and with instructions provided to them;

• **The second level of control** is performed by specialised functions, independent from the activities controlled or members of staff who are independent from the activities controlled;

• **The third level of control** is performed by the Dexia Group Audit function, the task of which is, through periodic checks, to ensure that there is efficient and effective performance of both of the levels of control defined above, within the holding company and all of its subsidiaries and branches.

The main internal control participants

The participants concerned by internal control are as follows:

• **Staff members and their direct superiors** are responsible for defining and implementing first level controls, as an integral part of their activity, in accordance with regulations. The heads of each activity line are responsible for defining and updating a body of procedures adapted to the complexity and risks associated with their activity;

• **Permanent control** has the role of challenging key first level controls, implementing second level controls and collecting the results of key second level controls implemented by other specialised functions (for instance: Accounting Control, Validation, Credit Model Control);

• **Compliance** ensures that all the regulations in the fields entrusted to it by the compliance charter adopted by the Board of Directors are applied on a permanent basis and do not, through their absence or non-application, result in the company running risks, either of administrative, disciplinary, financial or even reputational penalty;

• **Internal Audit** considers all the objectives of the organisation, analyses the risks liable to compromise the achievement of those objectives and periodically assesses the robustness of the controls put in place to manage such risks.

The independence of the internal control functions

Internal control functions are strictly independent of the functions they control and daily activity management:

• The General Auditor, the Chief Compliance Officer and the Chief Risk Officer, to whom Permanent Control is attached, report on the results of their control activities directly to the Management Board and to the Board of Directors;

• The General Auditor, the Chief Compliance Officer and the Chief Risk Officer have direct access to the Chairman of the Board of Directors, to the Chairman of the Audit Committee and to the Chairman of the Risk Committee;

• A specialised committee assists the Board of Directors with regard to the remuneration of the General Auditor, the Chief Compliance Officer and the Chief Risk Officer. Their remuneration is determined independently of the remuneration of the functions controlled;

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

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

Operational principles

Internal control activities are guided by the following principles:
• Risk-based approach: internal control within Dexia adopts a risk-based approach. The internal control functions determine their control programmes and their activities on the basis of a prior risk assessment.
• Coordination: the control functions work in a coordinated manner in order to avoid redundancies of tasks and the duplication of action plans.
• Common methodological references and tools: the control functions share common references and nomenclatures (for instance a common risk reference) and common methodological tools, in order to facilitate the production of reports to the bank's governance bodies.

The internal control participants

Internal Audit

Role

Internal Audit is an independent and objective activity giving the Board of Directors and the Management Board of the Dexia Group assurances concerning the quality and effectiveness of its internal control system, risk management and governance systems and procedures, contributing towards the protection of the Group's interests and reputation.
It considers all the objectives of the organisation, analyses the risks associated with those objectives and periodically assesses the robustness of the controls in place to manage those risks. Internal audit then provides management with an assessment of the residual risks so that management can validate the appropriateness for the global risk profile desired for the Dexia Group, and proposes actions to increase the effectiveness of controls.
Moreover, Internal Audit assists the Boards of Directors of the Group and its entities in their supervisory role through its participation on the Audit Committees.
In line with international standards, a Dexia Group Audit Charter sets out the fundamental principles governing the internal audit function and describing its objectives, role and responsibilities, as well as how it operates. This charter was updated in June 2014 to take account of the Group's new configuration.
So that each Dexia Group staff member can appreciate the importance of the internal audit function's role within the Dexia Group's internal control and management support systems, the audit charter has been published on the Dexia website *(www.dexia.com).*

Main guidelines

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

The independence and effectiveness of the audit function are guaranteed by applying the following principles:
• Each Internal Audit department reports directly to the highest level of authority within the entity.
• The absence of involvement in the organisation and operational management of Group entities. The Management Boards of Group entities may exceptionally call on internal audit for opinions, advice or assistance. The rules relating to those duties are defined in title 9 of the audit charter.
• Unconditional and immediate access to information: within the framework of its tasks, the internal audit function has access to all the information, documents, premises, systems and persons within the entity for which it is responsible, including all management reports and the minutes of and information packages prepared for any advisory and decision-taking bodies. The Dexia Group Internal Audit department has access to all the information in all Group entities. Any breach of these principles is liable to be reported to the Management Board and, if relevant, the Audit Committee;
• The provision of the means necessary to perform its task: Internal Audit receives from the Group's Management Board the means necessary to perform its task so as to respond constantly to changes in the Group's structures and environment.
At an individual level, each auditor must show the greatest professionalism and have ongoing training to ensure their mastery of the rapid changes to audit, banking, financial and IT techniques and those for combating fraud. Training needs are assessed in periodic and annual assessments. Statutory Auditors are required to comply with the Dexia Group's rules of professional ethics, as well as those specific to their profession. This means observance of the following fundamental principles:
• Integrity: the integrity of internal auditors is the basis for confidence in and the credibility of their judgement;
• Objectivity: auditors must show the highest degree of professional objectivity in collecting, assessing and communicating information relating to the activity or process examined. Internal auditors fairly assess all the relevant elements and are not influenced in their judgement by their own interests or those of others;
• Confidentiality: internal auditors have a duty of professional secrecy; they respect the value and ownership of the information they receive and only disclose this information with the required authorisations, unless a legal or professional obligation forces them to do so;
• Competence: internal auditors use and apply the knowledge, know-how and experience required for the performance of their tasks.

Scope for intervention

All the Dexia Group's activities, processes, systems and entities are within the scope of action for internal audit, without any reservations or exceptions. The scope includes all processes, whether operational, support, management, corporate governance and risk management and control processes. Outsourced essential activities also fall within the audit scope, given that operational services are responsible for organising the conditions for the possibility of audits by including audit clauses in service agreements.
Other than exceptions associated in particular with requests from the supervisory authorities, the audit scope does not however cover the activities of companies in which the Dexia Group only holds a minority interest. However, Dexia's representative on the Board of Directors is responsible for

learning about the state of the internal control mechanism and, if necessary, alerting the Management Board and the audit department of the entity which holds that interest.

Organisation of the function

Principles

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

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

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

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

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

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

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

Organisation of an Audit function

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

Management of the Audit activity line

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

The Audit department of Dexia/Dexia Crédit Local is responsible for:

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

Relations with the supervisory authorities and statutory auditors

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

General overview of activity over the year 2018

In 2018, the tasks of Internal Audit related to all the Group's major activity lines: Assets ("Management of Project Finance Portfolio", Funding and Markets ("Collateral Management"), Risk ("operational Risk Management"), Finance ("Controlling activities"), General Secretariat ("MiFID II"), Operations and IT Systems ("Leasing Operations").

Head office audit services were provided to local audit teams at Dexia New York, Dexia Crediop and Dexia Kommunalbank Deutschland, particularly in performing tasks relating to regulatory developments (IFRS 9).

The Inspection Unit

Role

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

Organisation and governance

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

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

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

General overview of activity over the year 2018

In accordance with the principles set out in the Inspection charter, the tasks performed by Inspection in 2018 related to awareness, prevention and detection of fraud, enquiries in relation to suspicions of fraud, as well as data extraction, and, in support of the Legal department for litigation files. Inspection also worked on assessing anti-fraud mechanisms (pay, expenses notes) under an audit mission format.

The Compliance function

The Compliance function is an independent function within the Dexia Crédit Local Group. It carries out its activities without any influence, interference or restrictions likely to affect its independence, its integrity, its impartiality and its objectivity.
The compliance function is an integral part of the internal audit mechanism of credit institutions and investment companies. The Compliance department at Dexia Crédit Local ensures the coherence and effectiveness of managing the risks of non-compliance within Dexia. The Compliance fields are as follows:

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

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

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

It should be noted that the Permanent Control function was split from the Compliance department in 2018.

Organisational structure

The Chief Compliance Officer of the Dexia Group and of Dexia Crédit Local reports to the Secretary General. An escalation right enables the Chief Compliance Officer automatically to include and item on the agenda for the Management Board if circumstances so demand and to report any significant incident directly to the Chairman of the Board of Directors of Dexia and/or to members of the Audit Committee as well as the supervisors.
The Chief Compliance Officer ensures that there is a consistent and effective policy within all the entities of the Dexia Group. Each regulated entity has a Compliance Officer in charge of application of the appropriate policy within their entity. These Compliance Officers report operationally to the Chief Compliance Officer.
In accordance with the regulations, the Dexia Compliance department also has responsibility for the implementation of the mechanism to combat money laundering and terrorism financing.
As for data protection and then the entry into force of the General Data Protection Regulation (GDPR), the Compliance department has, in collaboration with the business lines, identified and listed all the processing which involves personal data, updated and redrafted the internal procedures relating to the rights of the persons concerned and the warning of breaches, and identified an external service provider to dispense computer-aided training for all staff members.

Charter

The role of Compliance and the guidelines underlying the approach adopted by Dexia and Dexia Crédit Local are included in the Compliance Charter, approved by the Board of Directors and applicable since 2009. Since then it has been periodically reviewed.
Since 2015, the Compliance Charter has included the contributions of the CRD IV regarding the provisions relating to the Chief Compliance Officer and has enabled the areas of competence of Compliance Officers of the entities to be broadened if the regulations so require.
The Compliance Charter is applicable to all the regulated entities in the Dexia Group.

Permanent Control

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

The Permanent Control department was aligned to operational risk management as from April 2018, in order more closely to link the review of controls and risk assessment of the Group's main processes. This has resulted in the creation of a Permanent Control, Operational Risk and IT Systems Security department within the Risk Department. Other specialised units also carry out second-level controls in the areas of accounting, information systems security, credit rating, validation of internal models and market risk. In 2018, the Accounting Control function of the Finance department, in particular, continued to implement its control plan, which includes recurring closing work, process reviews and the control of exceptional operations.

Permanent Control relies on a control plan which consists of a selection of first level and second level controls. The plan covers the processes of head office, subsidiaries and branches as well as essential outsourced processes. First level controls to be integrated in this plan are offered by decentralised correspondents within operational units, departments, subsidiaries, branches and service providers. They are reviewed by the Permanent Control department which may, as the case may be, play a prescriptive role. Permanent Control also designs second level controls which it is responsible for realising. The review of the Permanent Control plan is determined on the basis of the mapping of processes, the analysis of corresponding operational risks, operational incidents gathered and the recommendations of internal audit, the auditors and supervisors.

At a consolidated level for all subsidiaries and providers, the Permanent Control department sees to the quarterly performance of the controls of the plan, ensuring a second reading of the proper implementation of controls and making a critical analysis of the results having regard to the risks identified. Permanent Control may ask for any substantiation of the differences observed and ensures the implementation of the necessary action plans, enabling malfunctions to be remedied.

The Permanent Control department is coordinated with other internal control actors and uses a tool and risk references and processes common to the entire Group. It receives the result of the second level controls performed by other independent control functions. The Permanent Control department accounts for its work to the Chief Risk Officer, the Management Board and the Risk Committee.

Control and monitoring of the internal control system

The Audit Committee and the Board of Directors

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

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

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

During the 2018 fiscal period, the Audit Committee implemented at Dexia level was delegated to assist the Board of Directors in carrying out its oversight of the management of Dexia Crédit Local. The Audit Committee focuses specifically on those procedures covering the preparation of the financial statements and is also responsible for managing relationships with the Statutory Auditors.

In accordance with the recommendations of the AMF, as part of its responsibilities, the Audit Committee:

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

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

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

The Management Board

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

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

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

The financial statements

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

The Financial Control department brings together the Accounting department and the transversal functions of Consolidation, Management Control, Tax, Norms and Consolidated Regulatory Reporting.

The Accounting department sees to the production of basic accounting data and the financial statements of Dexia, Dexia Crédit Local, and those of the subsidiaries which do not have their own Accounting departments, if that task is not performed by a fiduciary.

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

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

Implementation of the outsourcing agreement signed at the beginning of October 2017 with Cognizant was reflected by the transfer of IT services in November 2017 and credit and market back offices in May 2018. This partnership with Cognizant marks an important stage in securing Dexia Crédit Local's operational model. The outsourced services are closely monitored by the Watchtower, put in place within Dexia Crédit Local, in particular via performance and risk indicators (Risk Appetite Framework). Dexia Crédit Local also chose to entrust Cognizant with the task of renewing and managing its IT infrastructure within the framework of a separate agreement. Its implementation, which is ongoing, will extend through 2019 and is also being closely monitored.

Dexia Crédit Local statutory financial statements

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

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

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

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

The accounting entries generated during this process are subsequently compiled and aggregated using an automated, standardised process, to create the statutory financial statements of Dexia Crédit Local prepared under French GAAP and the company's contribution to the consolidated financial statements prepared under EU IFRS. The same is true of all subsidiaries whose accounting is performed at the Head Office. The Accounting department uses these financial statements, supplemented in some cases by data provided by the management systems, to establish the tables for the notes

that form an integral part of the annual financial statements. The Accounting department then performs cross-checks between the summary reports and the notes to the financial statements. Throughout the entire process, reviews and tests of reasonableness and of compliance with the established procedures are conducted in accordance with the reporting authorities that have been established.
The same work is performed in each of the entities that make up the Dexia Crédit Local Group, although the degree of complexity may vary with the size of these entities and the activities in which they engage.

Dexia Crédit Local consolidated financial statements

In order to prepare their contribution to the Dexia Crédit Local consolidated financial statements, the consolidated entities reprocess their statutory financial statements established in line with local standards in order for them to comply with the accounting principles of the Dexia Crédit Local Group (IFRS accounting standards as adopted in the European Union). These principles are compiled in a consolidation manual sent to each Group entity. They are completed, on each accounting date, by operational instruction notes provided to the entities by the head office Consolidation service. These instruction notes present the improvements to be made to processes with a view to observations made over previous periods and detail the developments to be taken into account (systems, new data to be provided and so on) over the period.
The financial statements sent to the Group by the various entities are then consolidated and are subject to certain adjustments. The principal adjustments made by the Consolidation service relate to the elimination of reciprocal accounts and intragroup transactions (such as acquisitions/asset disposals and dividends). They also deal with the treatment of companies held by different Group entities.
When the consolidated financial statements have been finalised, they are submitted for review to the Chief Financial Officer who has them approved by the Management Board. They are then presented to the Audit Committee and signed off by the Board of Directors.
Some of the notes and appendices to the consolidated financial statements are not drawn up directly by the Financial Control department, but come from the following departments, such as Financial Strategy, the Risk department, the General Secretary or Human Resources.
The planning of the provision of this information and the final responsibility for the content of the consolidated financial statements are assumed by the Finance support line.

Publication of the Dexia Crédit Local financial statements

The financial statements are then incorporated into the annual report, which is equivalent to the registration document (document de référence) required by Article 212-13 of the General Regulations of the French Autorité des marchés financiers (AMF).
This accounting and financial information is made public in several ways:
- The financial statements are announced in a financial notice and/or published in BALO, the French official journal of required publications;
- The annual report equivalent to the registration document is filed in electronic format with the AMF; it is also filed with the Clerk of the French Commercial Court and is posted on the Dexia Crédit Local website;
- The half-yearly financial report is filed electronically with the AMF and is posted on the Dexia Crédit Local website;
- As required by disclosure regulations, all annual and half-yearly reports are released through an AMF-certified distributor of financial news releases (Thomson Reuters).

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

Management information

The financial statements (balance sheet, off-balance-sheet, income statements, cash-flow tables and appendices) are not the only detailed elements of analysis which Dexia sends to its shareholders, its investors and the public. They are completed by financial indicators, breakdowns and results analyses, outlooks and risk assessments, which are integrated in the annual report or submitted when presentations are made to shareholders and investors.
Some of these elements are supplied directly by operational departments or by the risk control department. Their accuracy is guaranteed by the internal control system of the departments concerned.
The majority of financial indicators and in particular those necessitating a crossing or aggregation of data from different origins, the breakdown of figures available globally, or a reprocessing of account data in relation to management parameters, are provided by the Consolidation and Management Control department.
These indicators are elaborated on the basis of information processed directly from local IT systems, and those of international entities. It is summarised monthly in a report to the Dexia and Dexia Crédit Local Management Board.
In the French and foreign entities with their own management control team, the monitoring of financial indicators and the analysis of results are guided locally in accordance with the same standards and the same principles, depending on the size, organisations and systems of each entity. These instructions are common throughout the Dexia Crédit Local Group.
The whole is guided, monitored and supervised by the Consolidation and Management Control department, which provides all the entities with standardised and secure collection tools, to make reliable and to optimise the information collection mechanism. Finally, the department aggregates everything.
The information aggregation process is performed in parallel with the consolidation process guided by the accounting functions. At each stage of the establishment of consolidated data, consistency controls are performed, based on the reconciliation of analytical and accounting information. This reconciliation is a vital element of internal control. It is completed by a systematic analytical review of the principal items.

Risk inventory

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

External control

Statutory auditors

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

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

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

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

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

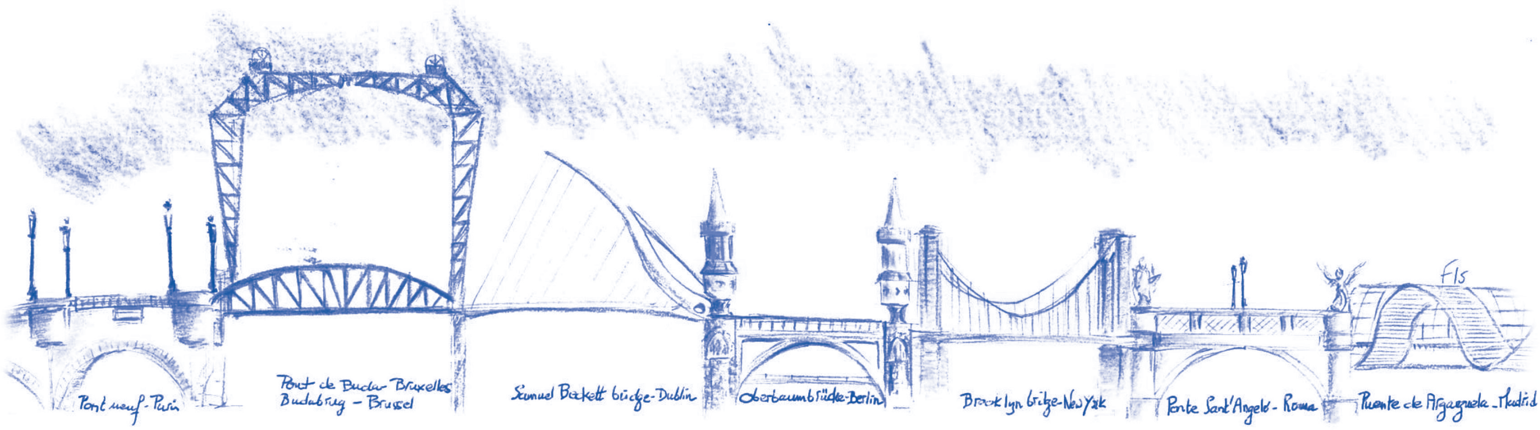
The mandates of the principal statutory auditors and the substitute statutory auditors were renewed at the shareholders' meeting held on 13 May 2014 for a term of six financial years to expire at the end of the shareholders' meeting dealing with the financial statements for the financial year which closes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

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

Auditors' remuneration

This table gives a summary of the remuneration paid to the statutory auditors for their services in 2018 for Dexia Crédit Local.

Remuneration of Statutory Auditors for 2018		
(in thousands of EUR)	Mazars	Deloitte
Certification of statutory and consolidated financial statements – Dexia Crédit Local in Paris	1,346	1,306
Certification of statutory and consolidated financial statements – Other entities	504	386
Other services	109	58



Declaration of corporate governance

Declaration of corporate governance

Reference code

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

Shareholders' meetings

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

The Board of Directors

Composition

Dexia Crédit Local also refers, in addition to the aforementioned provisions, to the provisions of its parent company (Dexia) regarding corporate governance as well as the operation of the Board of Directors.
The task of the Board of Directors is to determine the orientations of the activity of Dexia Crédit Local and to ensure their implementation. Its action is guided by the corporate interest, which is considered having regard for its shareholders, clients and members of staff. There are no potential conflicts of interest between the duties, with regard to Dexia Crédit Local, of any member whatsoever of the Board of Directors and their private interests and/or other duties.
As at 1 March 2019, the Board of Directors was composed of fifteen members chosen by virtue of their skills and the contribution they can make to the company's administration.
Mr Gilles Denoyel has been Chairman of the Board of Directors since 16 May 2018. He organises and runs the work of the Board, ensures the good operation of the corporate bodies of Dexia Crédit Local and participates in the company's relations with the institutional authorities.
It is to be noted that Mrs Martine De Rouck resigned from her post as director with effect from 22 April 2019. Mrs Tamar Joulia-Paris was co-opted as a director at the meeting of the Board of Directors on 21 March 2019 with effect from 22 April 2019. Her definitive appointment will be proposed to the next ordinary shareholders' meeting.

The composition of the Board of Directors of Dexia Crédit Local as at 1 March 2019 is as follows:
- Gilles Denoyel, Chairman of the Board of Directors;
- Wouter Devriendt, CEO;
- Véronique Hugues, Executive Vice-President;
- Giovanni Albanese, Executive Vice-President;
- Aline Bec, Executive Vice-President;
- Bertrand Dumont, Director;
- Alexandra Serizay, Director;
- Claire Cheremetinski, Director;
- Bart Bronselaer, Director;
- Alexandre De Geest, Director;
- Thierry Francq, Director;
- Michel Tison, Director;
- Koen Van Loo, Director;
- Martine De Rouck, Director (until 22 April 2019);
- Véronique Taï, Director.

The representatives of the Works Council are:
Mr Philippe Fuchs
Mr Philippe Keravel, deputy.
Mrs Aurélie Labeau in the capacity of titular representative of the TMB collège

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

Bec as directors. However, and despite the measures taken, the Board of Directors temporarily departed from its gender balance obligations between the date of resignation of Mrs Lucie Muniesa on 30 October 2018 and the appointment of Mrs Claire Cheremetinski on 4 February 2019. During that interval, the Board of Directors was composed of 14 directors of which 5 were women, although that figure should have been 6. Article L. 225-17 of the Commercial Code provides in such a case that the next director to be appointed must be a woman. The Board of Directors nonetheless decided to co-opt Mr Bertrand Dumont on 28 November 2018 replacing Mr Thomas Courbe who had resigned on 2 October 2018. His cooption, which had already been examined by the Appointments Committee prior to the resignation of Mrs Lucie Muniesa, was in line with the prospect of the appointment of a woman in the near future to replace Mrs Lucie Muniesa so as to restore the gender balance, with Mr Dumont's appointment making it possible to ensure the proper functioning of the Board of Directors.

Operation

In accordance with its obligations under the CRD IV Directive, and its transposition into national law, Dexia Crédit Local has introduced procedures and processes necessary for verification of the expertise and professional integrity of directors, responsible executives or employees and heads of independent control functions. Fulfilment of these obligations involves several departments, with the Human Resources department in charge, on behalf of the Management Board and the Board of Directors, of the process of selection and recruitment, the Compliance department in charge of checking the integrity of candidates, the absence of conflicts of interest resulting from other posts or mandates, the General Secretariat in charge of relations with the regulatory and control authorities. Such verification, which occurs at the time a candidate is recruited, will be the object of an annual assessment.
The Internal Rules, which are among the documents which can be consulted at the company's registered office, in particular stress the importance of their active participation in the work of the Board. They also state that members of the Board of Directors are considered to be persons performing sensitive functions and therefore subject to the strictest obligations concerning transactions involving Dexia securities. Any transaction carried out by members of the Management Board on Dexia securities must be reported in advance to the Compliance Officer of Dexia Crédit Local and his authorisation obtained.
The Board of Directors meets at least once per quarter. In 2018, it met ten times. The attendance rate was 93.5%.
The Chairman of the Board of Directors and the Chief Executive Officer provide members of the Board of Directors with all information, in particular of a strategic nature, necessary for the proper performance of their functions.
Prior to a meeting, directors receive an agenda as well as a file containing notes or documents relating to the agenda.
Directors are appointed in accordance with the law and the articles of association. At meetings of the Board, the Chief Executive Officer presents the activity and the financial statements for the past period. The Board also recurrently examines the work of the Audit Committee, the internal control and the risk monitoring.

Activities of the Board of Directors

In addition to matters falling within the ordinary remit of the Board of Directors (monitoring results, approving the budget, appointment and remuneration of Management Board members, convening of ordinary and extraordinary shareholders' meetings, minutes of specialised committee meetings), the Board dealt in particular with numerous subjects from the Audit and Risk Committee, and the following points:
- Preparation of the strategic plan for the European Central Bank;
- Solvency and measures to protect the capital of the Dexia Group;
- Group liquidity, long-term VLTM funding projections, ICAAP;
- Strategic and IT projects, operational risk management;
- First-time application of the IFRS 9 accounting standard;
- Asset disposal policy;
- Disposal of Dexia Kommunalbank Deutschland;
- Disposal of Dexia Israel;
- Closure of the Lisbon and Madrid branches;
- Impacts of Brexit;
- Reform of indices;
- Contribution to the Single Resolution Fund;
- Governance: appointing new directors, renewing the mandates of certain directors, succession of the Chief Compliance Officer and the self-assessment exercise for the Board of Directors and specialised committees;
- Executive remuneration report;
- Policies on compliance, internal audit, exercise of outside mandates.

Specialised committees

In accordance with the provisions of Articles L.511-89 of the Monetary and Finance Code and L.823-19 of the Commercial Code, the Board of Directors has created the following specialised committees:
- Audit Committee;
- Risk Committee;
- Remuneration Committee;
- Appointments Committee.

In view of the Dexia Group's specific situation and in order to maintain simplified and unified Group management, specialised committees are established within the parent company, Dexia, observing legal provisions applicable in terms of functions and composition.
Reference is also made therefore to the Dexia annual report for more detailed information concerning these different specialised committees.
After each meeting of a committee, a report on the work of the specialised committee concerned is presented to the Board of Directors. Minutes of the meetings of specialised committees are drawn up and forwarded to the Chairman of the Board of Directors in order, after approval by all the members of the committee, to be appended to the file for the next meeting of the Board of Directors.

The Audit Committee

The Audit Committee, established at Dexia Board of Directors level and competent for Dexia Crédit Local, met six times in 2018.

The Audit Committee is composed of non-executive directors, among which a majority of members are independent, including the committee chairman, in accordance with the provisions of Belgian law.
The composition of the committee as at 1 March 2019 is as follows:
• Alexandra Serizay, independent director and chairman of the committee;
• Bart Bronselaer, independent director;
• Thierry Francq, director;
• Michel Tison, independent director.
The Audit Committee is responsible for monitoring the accounts, and for the financial information process. It examines the Dexia Group's draft annual, half-year and quarterly as the case may be, statutory and consolidated financial statements, which must then be presented, approved and published, by the Board of Directors. It examines all matters relating to those accounts and to the financial reports and in particular checks the choice of accounting principles, the impairments, the observance of prudential standards, the relevance and permanence of the accounting principles and methods applied and the adequacy of the consolidation scope adopted. The Audit Committee also ensures the adequacy of the external audit for the Group's requirements and monitors the efficiency of the internal audit and risk management systems.

The Risk Committee

The Risk Committee, established at Dexia Board of Directors level and competent for Dexia Crédit Local, met seven times in 2018.
The Risk Committee is composed exclusively of non-executive directors and at least one independent director, including the committee chairman, who have sufficient skills in the fields of activity of the Dexia Group to enable them to understand the Group's strategy and the level of its risk tolerance.
The composition of the committee as at 1 March 2019 is as follows:
• Bart Bronselaer, independent director and chairman of the committee;
• Bertrand Dumont, director;
• Alexandre De Geest, director;
• Michel Tison, independent director (until 22 April 2019).
• As from 22 April 2019, Mrs Tamar Joulia-Paris will sit on the Risk Committee in the place of Mr Michel Tison. Mrs Tamar Joulia-Paris has relevant experience in risk management in the financial sector, the impact of prudential regulations and balance sheet and portfolio optimisation.

The Risk Committee is responsible for monitoring aspects of strategy and level of tolerance with regard to current and future risks. It assists the Board of Directors when the latter supervises the implementation of such strategy by the Management Board. The Risk Committee examines the (operational) implementation of procedures regarding risk control and internal audit. It ensures integrity and adequacy in relation to risk management, including procedures and organisational structures.

The Risk Committee takes also note of any observations and recommendations from the supervisory authorities in matters falling within its competence.

Joint meeting of the Audit and Risk Committees

The joint Audit and Risk Committee established at Dexia Board of Directors level and competent for Dexia Crédit Local met four times in 2018.
The Audit Committee and the Risk Committee meet as often as necessary to deal with common matters, on convocation by the Chairman of the Board of Directors, or on convocation by the chairman of the Audit Committee or the Risk Committee as the case may be.
The chair of these meetings is taken by the chairman of the Audit Committee.

The Remuneration Committee

The Remuneration Committee, established at Dexia Board of Directors level and competent for Dexia Crédit Local, met eight times in 2018.
The Remuneration Committee is composed of at least three non-executive directors including the Chairman of the Board of Directors and a majority of independent members within the meaning of Belgian law. The Chief Executive Officer and the Head of Human Resources attend meetings, without being members.
The Remuneration Committee must have the expertise necessary pertinently and independently to judge remuneration policies and practices.
The composition of the committee as at 1 March 2019: is as follows
• Martine De Rouck, independent director and chairman of the committee (until 22 April 2019);
• Gilles Denoyel, independent director;
• Claire Cheremetinski, director;
• Michel Tison, independent director;
• Alexandre De Geest, director.

As from 22 April 2019, Mrs Tamar Joulia-Paris will sit on the Remuneration Committee. On that same date, Mr Michel Tison will replace Mrs Martine De Rouck as chairman of the Remuneration Committee.

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

The Appointments Committee

The Appointments Committee, established at Dexia Board of Directors level and competent for Dexia Crédit Local, met nine times in 2018.
The Appointments Committee is composed of at least three non-executive directors, including the Chairman of the Board of Directors and at least one independent director within the meaning of Belgian law. The composition of the Appointments Committee is currently under review. The Chief

Executive Officer and the Head of Human Resources attend meetings, without being members. The Appointments Committee must have the necessary expertise in appointments policy, appropriately assessing the skills and fields of expertise of people it appoints within the Dexia Group.

The compostion of the committee as at 1 March 2019 is as follows:

- Gilles Denoyel, independent director and chairman of the committee;
- Thierry Francq, director;
- Koen Van Loo, director;
- Martine De Rouck, independent director (until 22 April 2019).

As from 22 April 2019, Mrs Martine De Rouck will be replaced by Mr Michel Tison on the Appointments Committee.

The Appointments Committee prepares decisions of the Board of Directors relating to:

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

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

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

The Management Board

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

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

The meeting of the Board of Directors on 16 May 2016 appointed Mr Wouter Devriendt as Chief Executive Officer, for the entire term of his director's mandate, i.e. until the shareholders' meeting in May 2020 which will rule on the financial statements closed on 31 December 2019 and decided that the Chief Executive Officer has the most extensive powers to act in all circumstances on behalf of the company. On the proposal of the Chief Executive Officer, the Board of Directors may appoint one or more natural persons to assist the Chief Executive Officer, with the title of Executive Vice-President. The number of Executive Vice-Presidents may not exceed five. In accordance with Article L. 225-56, II, paragraph 2 of the French Commercial Code, Executive Vice-Presidents have the same powers as the Chief Executive Officer vis-à-vis third parties.

As at 1 March 2019, the Management Board is composed as follows:

- Wouter Devriendt, Chief Executive Officer;
- Véronique Hugues, Executive Vice-President and Chief Finance Officer;
- Giovanni Albanese, Executive Vice-President and Chief Risk Officer;
- Guy Cools, Executive Vice-President in charge of Assets;
- Benoit Debroise, Executive Vice-President in charge of Funding and Markets;
- Aline Bec(1), Executive Vice-President and Chief Operating Officer.

Remuneration Report

Remuneration paid to directors in 2018

In accordance with the Group's remuneration policy approved by the Board of Directors of Dexia Crédit Local on 30 August 2017, the Dexia ordinary shareholders' meeting sets the emoluments of directors for the exercise of their mandates. The meeting decides on a maximum envelope and grants the Board of Directors the power to determine the practical terms of that remuneration and its allocation.

Dexia's ordinary shareholders' meeting decided, in 2006, to allocate to directors, for the exercise of their mandates, an annual global maximum envelope of EUR 1,300,000, with effect as at 1 January 2005. On 18 February 2015, the Board of Directors decided to allocate to non-executive directors a fixed remuneration of EUR 3,000 per quarter and attendance fees of EUR 2,000 per meeting. On 2 August 2012, on a proposal from the appointments and remuneration committee, the Dexia Board of Directors set the gross remuneration of the chairman at an annual fixed global amount of EUR 250,000.

The CEO and the Executive Vice-Presidents who are also directors receive no remuneration for the director's mandate. The remuneration is listed in the section herein relating to the remuneration paid to the Management Board.

(1) Aline Bec will leave the Dexia Group on 30 April 2019 and will be replaced by Patrick Renouvin, after approval by the supervisory authorities, probably in May 2019.

(gross amounts in EUR)	CA BoD (Fixed rem. paid by Dexia)	BoD (Fixed rem. paid by Dexia Crédit Local)	BoD (attendance fees paid by Dexia)	BoD (attendance fees paid by Dexia Crédit Local)	Audit Committee	Risk Committee	Joint Audit Risk Committee	Appoint-ment Committee	Remu-neration Committee	Total 2018 (3)	Total 2017 (3)
Directors											
R. de Metz(2)	93,750	0	0	0	0	0	0	0	0	93,750	250,000
G. Denoyel(2)	156,250	0	0	0	0	0	0	0	0	156,250	0
W. Devriendt	0	0	0	0	0	0	0	0	0	0	0
G. Albanese	0	0	0	0	0	0	0	0	0	0	0
A. Bec	0	0	0	0	0	0	0	0	0	0	0
J. Bohets	0	0	0	0	0	0	0	0	0	0	0
V. Hugues	0	0	0	0	0	0	0	0	0	0	0
C. Bavagnoli(1)	0	3,000	4,000	4,000	0	0	0	0	0	11,000	35,000
B. Bronselaer(2)	0	12,000	24,000	20,000	5,000	10,500	2,000	0	0	73,500	60,500
T. Courbe(1)	0	6,000	6,000	6,000	0	0	0	0	0	18,000	0
A. De Geest	0	12,000	24,000	20,000	0	6,000	1,000	0	6,000	69,000	49,750
B. Dumont(1)	0	3,000	4,000	6,000	0	0	0	0	0	13,000	0
Th. Francq(1)	0	12,000	22,000	16,000	5,000	0	2,000	3,750	0	60,750	50,750
L. Muniesa(1)	0	12,000	20,000	14,000	0	4,000	0	0	5,250	55,250	47,000
M. De Rouck(2)		12,000	24,000	20,000	0	0	0	5,250	6,000	67,250	32,250
A. Serizay(2)	0	12,000	24,000	20,000	7,500	0	3,000	0	0	66,500	51,500
V. Tai	0	12,000	0	20,000	0	0	0	0	0	32,000	31,000
M. Tison(2)	0	12,000	24,000	20,000	4,000	7,000	2,000	0	6,000	75,000	52,000
K. Van Loo	0	12,000	24,000	20,000	0	0	0	4,500	0	60,500	38,000

(1) The attendance fees of representatives of the French government are paid in accordance with Article 6 of Order 2014-948 of 20 August 2014.
(2) Independent directors.
(3) Including remuneration received for the mandate of director within Dexia Crédit Local.
(4) Directors of Dexia Crédit Local and observers at Dexia.

Remuneration paid to the Management Board in 2018

The members of the Management Board of Dexia Crédit Local referred to in the present section are on the one hand the Chief Executive Officer and the Executive Vice-Presidents of the company in 2018.

Mr Wouter Devriendt, Chief Executive Officer, Benoît Debroise (until 31 May 2018) and Johan Bohets Executive Vice-Presidents, are not however remunerated by Dexia Crédit Local by virtue of their mandate within the company. They are in fact remunerated by Dexia in their capacity as members of the latter's Management Board. Mr Guy Cools, Executive Vice-President, is not remunerated for his mandate within Dexia Crédit Local but by Dexia Crédit Local New York Branch for his functions performed within the US entities of the Dexia Group. However, in accordance with Article L.225-102-1 paragraph 2 of the Commercial Code, the remuneration paid to members of the Management Board by another Group entity must also be mentioned in the present chapter.

Composition of the remuneration

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

Consequently, no variable remuneration was or will be granted for the year 2018 to the Chief Executive Officer and the Executive Vice-Presidents.

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

It is important to stress that the differences of sometimes significant sums (in particular on pensions) do not correspond to notable differences in the salary but at the levels of the various deductions for legal or contractual schemes depending on the country and statuses.

Remuneration for the year 2018

Basic remuneration consists solely of a fixed part.

(in EUR)	Entity – Country	Gross basic remuneration
Wouter Devriendt	Dexia – Belgium	600,000
Johan Bohets(1)	Dexia – Belgium	333,750
Benoît Debroise	Dexia(4)	405,926
Aline Bec	Dexia Crédit Local – France	450,000
Véronique Hugues	Dexia Crédit Local – France	420,000
Giovanni Albanese(2)	Dexia Crédit Local – France	154,514
Guy Cools(3)	DCL New York – United States	609,126

(1) From 1 January 2018 to 30 September 2018
(2) As from 6 September 2018
(3) This remuneration, paid in US dollars and expressed at the annual average rate EUR/USD, is for his functions as CEO of Dexia Crédit Local NY and Dexia Financial Products Services and takes account of his 29 years of service in the Dexia Group. The mandate of executive Vice-President of Dexia Crédit Local is exercised free.
(4) Dexia – Belgium until 31 May 2018, Dexia Crédit Local – France as from 1 June 2018.

Supplementary pension schemes

The CEO and the Executive Vice-Presidents who do not perform their function within the framework of a French contract (Belgium or the United States) benefit from a supplementary pension put in place by Dexia.

Characteristics of applicable supplementary pension schemes

The supplementary pension schemes of the CEO and the Executive Vice-Presidents are defined contribution schemes not generating social liabilities for the company.
For the CEO and the Executive Vice-Presidents present in Belgium, they give a right, on retirement, to the capital constituted by a capitalisation of annual contributions (21%), the latter having a ceiling. For 2018 no remuneration exceeded this contribution ceiling.

For the Executive Vice-President present in the United States, they give a right, on retirement, to the capital constituted by a capitalisation of annual contributions (8%), the latter having a ceiling. For 2018 the remuneration exceeded this contribution ceiling (EUR 233,300).

Amounts paid within the framework of supplementary pension schemes(1)

Annual premiums of EUR 274,042 were paid in 2018. Obligatory contributions paid to pension funds, in particular for French Executive Vice-Presidents, need not be indicated in the table below.

(1) Defined contribution schemes.

(in EUR)	Entity – Country	Supplementary pension schemes
Wouter Devriendt	Dexia – Belgium	126,290
Johan Bohets	Dexia – Belgium	93,665
Benoît Debroise	Dexia(1)	35,422
Aline Bec	Dexia Crédit Local – France	-
Véronique Hugues	Dexia Crédit Local – France	-
Giovanni Albanese	Dexia Crédit Local – France	-
Guy Cools	DCL New York – United States	18,664

(1) Dexia – Belgium until 31 May 2018, Dexia Crédit Local – France as from 1 June 2018.

Supplementary death cover, permanent invalidity and medical costs

Collective annual premiums of EUR 151,660 were paid in 2018 for supplementary death cover, permanent invalidity and medical costs, the breakdown of which is stated in the table below.

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

(in EUR)	Entity – Country	Death cover, orphans	Invalidity	Medical costs
Wouter Devriendt	Dexia – Belgium	42,851	16,455	535
Johan Bohets	Dexia – Belgium	16,703	12,025	535
Benoît Debroise	Dexia(2)	12,459	4,966	3,379
Aline Bec(1)	Dexia Crédit Local – France	1,819	777	5,423
Véronique Hugues(1)	Dexia Crédit Local – France	1,819	777	5,423
Giovanni Albanese(1)	Dexia Crédit Local – France	567	242	1,732
Guy Cools	DCL New York – United States	763	420	21,990

(1) Staff members who, as employees, must be affiliated to the collective agreement concerning all Dexia Crédit Local staff members.
(2) Dexia – Belgium until 31 May 2018, Dexia Crédit Local – France as from 1 June 2018.

Other benefits paid to members of the Management Board(1)

(in EUR)	Entity – Country	Representation costs	Telephone allowance(2)	Car allowance(2)
Wouter Devriendt	Dexia – Belgium	5,880	180	4,329
Johan Bohets	Dexia – Belgium	4,743	135	3,055
Benoît Debroise	Dexia(3)	2,635	75	3,138
Aline Bec	Dexia Crédit Local – France	0	0	3,105
Véronique Hugues	Dexia Crédit Local – France	0	0	1,296
Giovanni Albanese	Dexia Crédit Local – France	0	0	0
Guy Cools	DCL New York – United States	0	0	16,015

(1) The differences of amount are explained by tax regulations specific to each country.
(2) This amount corresponds to the tax advantage associated with the provision of a company car/ telephone which can also be used for private purposes, with the exception of the person present in New York who receives a lease allocation.
(3) Dexia – Belgium until 31 May 2018, Dexia Crédit Local – France as from 1 June 2018.

Option plan

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

Severance conditions

Provisions relating to severance payments under the Dexia remuneration policy

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

Provisions relating to severance pay contained in contracts of employment

Mr Wouter Devriendt is entitled, in the event of termination of his contract by Dexia on grounds other than serious wrong to notice (or compensation in lieu of notice) corresponding to one month per year of service with a minimum of 3 months and a maximum of 9 months.

Departure during the year 2018

Mr Johan Bohets left Dexia with effect from 30 September 2018. Severance pay equivalent to 3 months of fixed remuneration was paid to him.

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

None.

Mandates and functions performed by corporate officers during the financial year

In application of Article L. 225-102-1 paragraph 4 of the French Commercial Code, below are the mandates and functions performed by each corporate officer of Dexia Crédit Local as at 31 December 2018.

Mr Gilles Denoyel

Professional address: CBX Tower - 1, Passerelle des Reflets – La Défense 2 - 92919 La Défense Cedex
4 August 1954

- Chairman, independent director, non-executive member of the Board of Directors of Dexia
- Chairman of BGD Conseil
- Director of Margo Bank
- Member of the Executive Committee of the Historic Monuments Foundation

Mr Wouter Devriendt

Professional address: CBX Tower - 1, Passerelle des Reflets – La Défense 2 - 92919 La Défense Cedex
10 April 1967

- CEO of Dexia, Chairman of the Management Board of Dexia
- Director and Chairman of the Board of Directors of Dexia Crediop

Mr Giovanni Albanese
Professional address: CBX Tower - 1, Passerelle des Reflets – La Défense 2 - 92919 La Défense Cedex
22 February 1959
• Executive director and member of the Management Board of Dexia

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

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

Mr Bertrand Dumont
Professional address: 139, Rue de Bercy – 75572 Paris Cedex 12
2 July 1973
• Non-executive director of Dexia
• Director of Business France
• Deputy CEO of the Treasury (France)

Mr Bart Bronselaer
Professional address: St Martinusberg 11, 3360 Bierbeek (Belgium)
6 October 1967
• Independent (non-executive) director of Dexia
• Independent Director of United Pensions OFP

Mr Alexandre De Geest
Professional address: Avenue des Arts 30, 1040 Brussels (Belgium)
5 February 1971
• Non-executive director of Dexia
• General administrator of the Belgian Federal Public Service Finance (FPS Finance)
• Chairman of the Protection Fund fot Financial Instruments
• Member of the Commission for Nuclear Reserves

Mr Thierry Francq
Professional address: 86 Rue Saint-Lazare, 75009 Paris
30 April 1964
• Non-executive director of Dexia
• Director of the Cabinet of the PDGI of the Covéa group

Mr Michel Tison
Professional address: Universiteitstraat 4, 9000 Gent (Belgium)
23 May 1967
• Independent (non-executive) director of Dexia
• Professor of Finance Law and Dean of the Faculty of Law and Criminology at the University of Ghent (Belgium)

Mr Koen Van Loo
Professional address: Avenue Louise 32 Box 4, 1050 Brussels (Belgium)
26 August 1972
• Non-executive director of Dexia,
• Chief Executive Officer of the Federal Holding and Investment Company (FHIC)
• Director of Capricorn ICT Fund
• Non-executive director of Certi-Fed
• Director of Fundo Performa-Key de Inovaçâo em eio ambiente and of Sinnolabs Hong Kong Ltd

Mrs Alexandra Serizay
Professional address: 255, Quai de la Bataille de Stalingrad, 92130 Issy-les-Moulineaux
• 31 March 1977
• Independent (non-executive) director of Dexia
• Head of Global Strategic Planning Corporate Services at Sodexo
• Director of Cofiroute and AFS (Vinci Autoroutes group)

The French State represented by Claire Cheremetinski (appointed 4 February 2019)
Professional address: 139, Rue de Bercy – 75572 Paris cedex 12
2 May 1976
• Non-executive director of Dexia
• Head of bilateral affaires and corporate internationalisation for the Management Board of the Treasury
• Director of Business France
• Director of Bpi France
• Government commissioner of Expertise France

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

Mrs Martine De Rouck (until 22 April 2019)
Professional address: Kleine Geeststraat 57, 1933 Sterrebeek (Belgium)
12 August 1956
• Independent (non-executive) director of Dexia
• Non-executive director of Orange Belgium

Information of non-regulated agreements

Article L.225-102-1 of the Commercial Code requires that companies list in their management report all agreements reached directly or via third parties between:
• a director, the Chief Executive Officer, one of the Executive Vice-Presidents of the company or one of its shareholders with voting rights higher than 10%, on the one hand; and,
• companies in which the company directly or indirectly has a 50% holding or higher, on the other hand.
Agreements on current transactions signed under normal conditions do not have to be listed.
List of agreements included in the *Financial Products* (FP) portfolio guarantee
Dexia sold the Financial Security Assurance (FSA) insurance unit to Assured Guaranty Ltd (Assured). The transaction was finalised on 1 July 2009. FSA's Financial Products (FP) activity,

managed by FSA Asset Management (FSAM), was excluded from the scope of the sale and is still part of Dexia Group. To the extent that FSA is the guarantor of the FP business' liabilities, the sale necessarily required that Dexia and Dexia Crédit Local guarantee FP's assets and liabilities.
In its turn, Dexia received a counter-guarantee from the Belgian and French governments for certain FP business assets (Guaranteed FP Assets). The guarantee was approved by the European Commission on 13 March 2009[(1)]. It should be noted that in 2011 FSAM sold, via Dexia Crédit Local New York (DCLNY), all remaining Guaranteed FP Assets to third parties such that, on 31 December 2011, no Guaranteed FP Assets were covered by government guarantees. However, the guarantee continues to exist from a technical standpoint, although the risk of a call for the guarantee is theoretical.
The agreements referred to below are for the management of FP assets and liabilities held by FSAM and managed in run-off by the Group.
Pledge and Administration agreement, signed 30 June 2009, by Dexia, Dexia Crédit Local (DCL), Dexia Bank Belgium, Dexia FP Holdings Inc., FSA Asset Management LLC, FSA Portfolio Asset Limited, FSA Capital Markets Services LLC, FSA Capital Management Services LLC, FSA Capital Markets Services (Caymans) Ltd, Financial Security Assurance Inc. and The Bank of New York Mellon Trust Company, National Association;
1.1 *Dexia Guaranteed Put* agreement signed 30 June 2009 by DCLNY, Dexia and FSAM;
1.2 *Dexia FP Guarantee Reimbursement* agreement signed 30 June 2009 by Dexia, DCL, FSAM and other GIC Business Entities;
1.3 *Dexia Non-Guaranteed Put agreement* signed 30 June 2009 by DCLNY, Dexia and FSAM;
1.4 *Administrative Services* Agreement signed 30 June 2009 by Dexia, DCL, AGM, DFPS, FSAM and other GIC Business Entities;
1.5 *Third Amended and Restated Intercompany* agreement signed on 20 February 2013 (effective 27 December 2012) by DSA, DCLNY and Dexia Holdings Inc.

Current delegations granted by the shareholders' meeting

None

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

None

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

Structure of the share capital

As at 31 December 2018, the share capital of Dexia Crédit Local amounted to EUR 279,213,332. It is divided into 279,213,332 shares each with a nominal value of EUR 1.00. Each share has one voting right attached and none is pledged. To date there is no other security giving access to the capital of Dexia Crédit Local.
The share capital of Dexia Crédit Local is held, directly and almost completely by Dexia, the Chief Executive Officer holding one share in the company.
Indirectly, via Dexia, the capital of Dexia Crédit Local is held 52.78% by the Federal Holding and Investment Company (FHIC) acting on delegation on behalf of the Belgian State and 46.80% by the French State.
Article 10 of the articles of association provides that:
I. The disposal or mutation of shares in one of the two (2) cases referred to below is free and will be regularised immediately without need for the approval of the Board of Directors provided in paragraph II below:
(1) Disposal or mutation of shares in favour of companies in the Dexia Group;
(2) Disposal or mutation to any natural person or company newly appointed to the post of member of the Board of Directors of the company, of a share in the company, as well as disposal or mutation of a share to its original transferor in the case of a retrocession by a member of the Board of Directors of the company particularly at the expiry of their mandate.
II. Subject to legal provisions in force, the disposal or mutation of shares to a third party on whatsoever ground and in whatsoever form must, in order to become definitive, be subject to the company's approval given by the Board of Directors which will rule within the month of its submission.

Proposals for resolutions to be submitted to the shareholders' meeting

Proposal to approve the annual financial statements

After having had the Board of Directors' report, the report by the Chairman of the Board of Directors and the Auditors' report read out, the ordinary shareholders' meeting approves the annual financial statements as at 31 December 2018 as they have been presented to it, with all the operations reflected by these financial statements or mentioned in the aforesaid reports, and showing a negative result of EUR 646,943,848.96.
The ordinary shareholders' meeting approves the overall amount of the non-deductible expenses and charges for the profits subject to corporation tax (Article 39 of the General Tax Code), amounting to EUR 37,546 which has not brought about additional corporation tax bearing in mind the tax loss for the 2018 financial year.

Proposal to approve the consolidated financial statements

After having had the Board of Directors' report, the report by the Chairman of the Board of Directors and the Auditors' report read out, the ordinary shareholders' meeting approves the consolidated financial statements as at 31 December 2018 as they have been presented to it, with all the operations reflected by these financial statements or mentioned in the aforesaid reports, and showing a net income group share of EUR -256,485,398.

Proposal to approve regulated agreements and commitments

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

Proposal to grant final discharge to corporate officers

Further to approval of the previous resolutions, the ordinary shareholders' meeting grants full and unreserved discharge to the company's corporate officers in respect of fulfilment of their mandate with regard to the financial year closed on 31 December 2018.

Proposal to grant final discharge to the CEO and the Executive Vice-Presidents

Further to approval of the previous resolutions, the ordinary shareholders' meeting grants full and unreserved discharge to the Chief Executive Officer and to the Executive Vice-Presidents in respect of fulfilment of their mandate with regard to the financial year closed on 31 December 2018.

Proposal to appropriate the profit/ loss

The ordinary shareholders' meeting decides to charge the positive result for the financial year, amounting to EUR 646,943,848.96 in its entirety to the retained earnings/ losses account.

Once this loss amount has been charged, the retained earnings/losses account will show a positive figure of EUR 616,281,297.97.

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

Proposal to certify the financial statements by the auditors

In accordance with the provisions of Article L. 822-14 of the French Commercial Code, the ordinary shareholders' meeting formally records the fact that the annual and consolidated financial statements for the financial year closed on 31 December 2018 have been audited by the Auditors:

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

Vote on the elements of the remuneration attributable to Mr Gilles Denoyel, Chairman of the Board of Directors

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

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

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

Vote on the elements of the remuneration attributable to the Executive Vice-Presidents

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

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Vote on the elements of the remuneration paid or attributed for the 2018 financial year to Mr Gilles Denoyel, Chairman of the Board of Directors

In application of Article L.225-100 II of the French Commercial Code, the shareholders' meeting approves the elements of the remuneration paid or attributed for the 2018 financial year to Mr Gilles Denoyel, Chairman of the Board of Directors as presented in the table appearing on 48 of the Declaration of corporate governance.

Vote on the elements of the remuneration paid or attributed for the 2018 financial year to Mr Wouter Devriendt, Chief Executive Officer

In application of Article L.225-100 II of the French Commercial Code, the shareholders' meeting approves the elements of the remuneration paid or attributed for the 2018 financial year to Monsieur Wouter Devriendt, Chief Executive Officer as presented in the table appearing on 49 of the Declaration of corporate governance.

Vote on the elements of the remuneration paid or attributed for the 2018 financial year to the Executive Vice-Presidents

In application of Article L.225-100 II of the French Commercial Code, the shareholders' meeting approves the elements of the remuneration paid or attributed for the 2018 financial year to Executive Vice-Presidents as presented in the table appearing on 49 of the Declaration of corporate governance.

Proposal to set the overall remuneration bill

In application of Article L. 511-73 of the Monetary and Financial Code, the ordinary shareholders' meeting issues a favourable opinion as to the overall amount of remuneration awarded to the persons mentioned in Article L. 511-71 of said Code during the financial year closed on 31 December 2018, which amounts to EUR 12,982,443 (fixed salary and any bonuses).

This remuneration bill thus covers remuneration paid in 2018 to the company's managers and other members of staff of the company and its (international) subsidiaries who are considered, in accordance with the remuneration policy applicable to the entire Dexia Group, as having a significant impact on the Group's risk profile on account of their position and/or the amount of their remuneration. This amount includes the Chief Executive Officer's remuneration and the Executive Vice-Presidents' remuneration awarded by Dexia exclusively in consideration of their mandate within the parent company.

Proposal to appoint Mr Giovanni Albanese as a director

The ordinary shareholders' meeting decides, in accordance with the provisions of Article L.225-18 of the French Commercial Code, to appoint Mr Giovanni Albanese – co-opted by the Board of Directors on 6 September 2018, with effect as from 1 October 2018 – of Italian nationality and domiciled at 5b Rue du Centre, 92200 Neuilly-sur-Seine, with effect as from the close of the shareholders' meeting, replacing Mr Johan Bohets. The mandate of Giovanni Albanese will end at the close of the ordinary shareholders' meeting to be held in 2020 and called on to rule on the financial statements for the financial year closed on 31 December 2019.

Proposal to appoint Mr Bertrand Dumont as a director

The ordinary shareholders' meeting decides, in accordance with the provisions of Article L.225-18 of the French Commercial Code, to appoint Mr Bertrand Dumont – co-opted by the Board of Directors on 28 November 2018, with immediate effect – of French nationality and domiciled at 5 Rue José Maria de Heredia, 75007 Paris, with effect as from the close of the shareholders' meeting, replacing Mr Thomas Courbe. The mandate of Bertrand Dumont will end at the close of the ordinary shareholders' meeting to be held in 2021 and called on to rule on the financial statements for the financial year closed on 31 December 2020.

Proposal to appoint Mrs Claire Cheremetinski as a director

The ordinary shareholders' meeting decides, in accordance with the provisions of Article L.225-18 of the French Commercial Code, to appoint Mrs Claire Cheremetinski – co-opted on 4 February 2019 – of French nationality and domiciled at 26 Avenue du Général Bizot, 75012 Paris, with effect as from the close of the shareholders' meeting, replacing Mrs Lucie Muniesa. The mandate of Claire Cheremetinski will end at the close of the ordinary shareholders' meeting to be held in 2021 and called on to rule on the financial statements for the financial year closed on 31 December 2020.

Proposal to appoint Mrs Tamar Joulia-Paris as a director

The ordinary shareholders' meeting decides, in accordance with the provisions of Article L.225-18 of the French Commercial Code, to appoint Mrs Tamar Joulia-Paris – co-opted on 21 March 2019 with effect as from 22 April 2019 – of Belgian nationality and domiciled at Avenue des Statutaires 25, 1180 Uccle (Belgium), with effect as from the close of the shareholders' meeting, replacing Mrs Martine De Rouck. The mandate of Tamar Joulia-Paris will end at the close of the ordinary shareholders' meeting to be held in 2021 and called on to rule on the financial statements for the financial year closed on 31 December 2020.

Proposal to renew the mandate of Mrs Véronique Hugues as a director

The ordinary shareholders' meeting decides, in accordance with the provisions of Article L.225-18 of the French Commercial Code, to appoint Mrs Véronique Hugues, of French nationality and domiciled at 3 Rue Jacques Offenbach, 75016 Paris, expiring, until the ordinary shareholders' meeting to be held in 2023 and called on to rule on the financial statements for the financial year closed on 31 December 2022.

Proposal to renew the mandate of Mr Michel Tison as a director

The ordinary shareholders' meeting decides, in accordance with the provisions of Article L.225-18 of the French Commercial Code, to appoint Mr Michel Tison, of Belgian nationality and domiciled at Frans Spaestraat 23, 9000 Ghent (Belgium), expiring, until the ordinary shareholders' meeting to be held in 2023 and called on to rule on the financial statements for the financial year closed on 31 December 2022.

Proposal to renew the mandate of Mr Koenraad Van Loo as a director

The ordinary shareholders' meeting decides, in accordance with the provisions of Article L.225-18 of the French Commercial Code, to appoint Mr Koenraad Van Loo, of Belgian nationality and domiciled at Roeselbergdal 9, 3012 Wilsele (Belgium), expiring, until the ordinary shareholders' meeting to be held in 2023 and called on to rule on the financial statements for the financial year closed on 31 December 2022.

Proposal to grant powers

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

Statutory Auditors' special report on regulated agreements and commitments

Shareholders' meeting held to approve the financial statements for the year ended 31 December 2018

To the shareholders,

In our capacity as Statutory Auditors of your company, we hereby report to you on regulated agreements and commitments.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of, as well as the reasons provided for, the agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, without commenting on their relevance or substance or identifying any undisclosed agreements or commitments. Under the provisions of article R.225-31 of the French Commercial Code (Code de commerce), it is the responsibility of the shareholders to determine whether the agreements and commitments are appropriate and should be approved.

Our role is also to provide you with the information stipulated in Article R.225-31 of the French Commercial Code relating to the implementation during the past year of agreements previously approved by the shareholders' meeting, if any.

We conducted the procedures we deemed necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (Compagnie Nationale des Commissaires aux Comptes) relating to this engagement. These procedures consisted in agreeing the information provided to us with the relevant source documents.

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

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

Agreements and commitments previously approved by shareholders' meeting

Agreements and commitments approved during previous years

a) Agreements and commitments having an impact on 2018 financial statements

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

Agreement allowing DCL to use subsidiaries' receivables as collateral

Persons concerned:

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

In order to reduce DCL's financing needs, it was decided to mobilize the assets of DCL and its subsidiaries that are not currently utilized, in secured funding arrangements, as collateral for financing or issues guaranteed by the States. DCL mobilized the subsidiaries' assets under market conditions throughout 2018:

- As at December 31, 2018, the assets concerned totaled EUR 19.3 billion and comprised:
- EUR 18.8 billion of DCL receivables ;
- EUR 567 million of DCL leasing subsidiary receivables.

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

State guarantee agreement

Persons concerned:

Mr. Robert de Metz, director of both DCL and Dexia S.A. (hereafter "DSA"), his mandate ended 15 May 2018;

Mr. Karel De Boeck, director of both DCL and DSA, his mandate ended 17 May 2017;

Mr. Claude Piret, director of DCL and management board member of DSA, his mandate ended 14 October 2016;

Mr. Koenraad Van Loo, director of both DCL and DSA,

Mr. Philippe Rucheton, former director of both DCL and DSA, his term of office with DCL having terminated on December 31, 2013.

On December 28, 2012, the European Commission advised its agreement to the revised orderly resolution plan for the Dexia Group submitted by the Belgian, French and Luxembourg States on December 14, 2012. This approval resulted in the implementation of the arrangements for the tripartite guarantee granted by the Belgian, French and Luxembourg States, capped at EUR 85 billion, based on the following allocation key: 51.41% for Belgium, 45.59% for France and 3% for Luxembourg.

The guarantee fee on the outstanding debt issued will be calculated based on an annual rate of 5 basis points compared with 90 basis points previously under the temporary guarantee.

In 2018, the cost of the guarantee for DCL amounted to EUR 33.3 millions.
Your Board of Directors authorized this agreement on December 19, 2012.

Guarantee agreement between DCL and Dexia Crediop

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

As part of the support for its subsidiary Dexia Crediop, DCL granted a first demand guarantee for EUR 75 million, expiring in 2023 at the earliest.
In accordance with the guarantee eligibility conditions set by the Bank of Italy, DCL's remuneration was set at 0.8%.
This agreement was approved by the shareholders' meeting of 7 May 2013, based on the Statutory Auditors' special report of Apil 2nd, 2013.
As at December 31, 2012, following the decrease in interest rates, exposure to the Terna counterparty mechanically increased, requiring an increase in the guarantee granted by DCL in order to comply with the large exposures limit set by the Italian regulator. An amendment to the initial agreement increasing the amount of the commitment to EUR 100 million was therefore signed, without the prior authorization of the Board of Directors, in order to react as quickly as possible to ensure compliance with regulatory ratios at the year-end. This amendment was approved by your shareholders' meeting of May 13, 2014.
DCL recorded commission income of EUR 0.8 million in 2018.

b) Agreements and commitments having no impact on 2018 financial statement

Furthermore we have been informed about the following ongoing agreements and conventions, already approved by the shareholders' meeting during previous years, having no impact in 2018.

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

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

The agreement for the sale of SFIL shares by DCL to the French State, Caisse des Dépôts et Consignations and Banque Postale was signed on January 23, 2013 in the presence of DMA and SFIL, for the purpose of enabling the parties to take advantage of Articles 8 "Indemnification" and 9 "Other commitments of the parties" of said agreement.
This agreement was authorized by your Board of Directors on January 15, 2013 and had no impact in 2018.
DCL sold these shares for EUR 1 on January 28, 2013.

Agreement for the management of disputes relating to disputed loans

Persons concerned :
Messrs. Philippe Rucheton and Alain Clot, former directors of both DCL and DMA, their terms of office with DCL having both terminated on December 31, 2013.
On January 31, 2013, DMA, DCL and SFIL signed an agreement for the management of disputes relating to disputed loans. The purpose of this agreement is to establish the procedures for managing all judicial (other than criminal) and administrative proceedings relating to loans recorded on DMA's balance sheet on the date of sale of SFIL shares until maturity of all such loans.
This agreement was authorized by your Board of Directors on January 15, 2013 and had no impact in 2018.

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

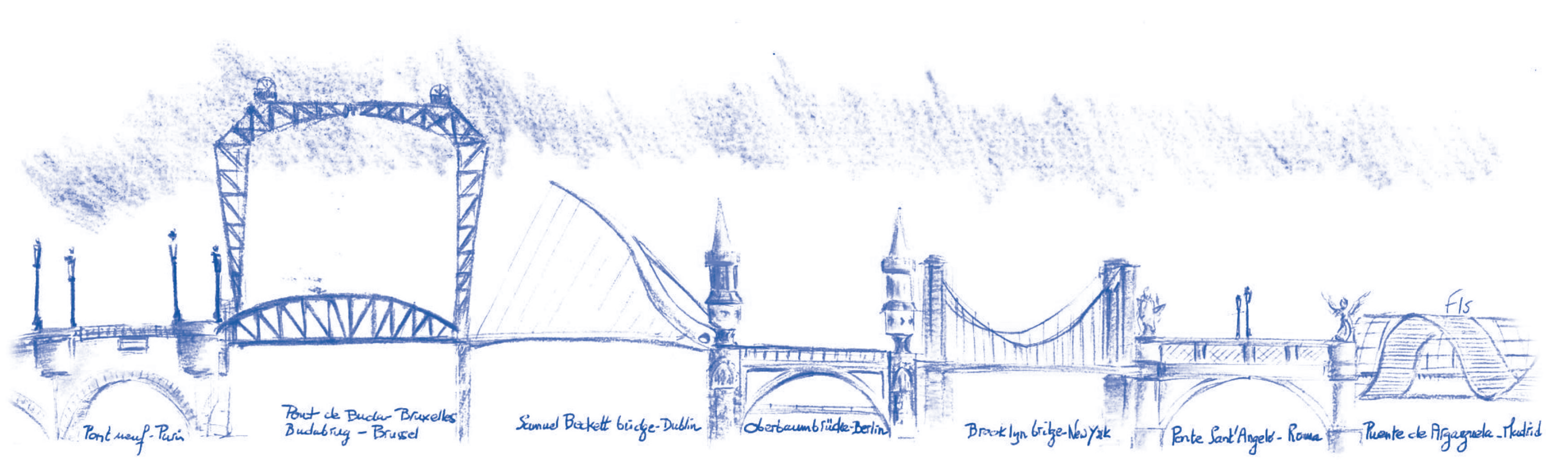
Persons concerned :
- *Mr. Jean-Luc Dehaene, former director of DCL, DSA, BIL and DBB, his term of office with DCL having terminated on June 29, 2012,*
- *Mr. Pierre Mariani, former director of DCL, DSA, BIL and DBB, his term of office with DCL having terminated on August 2, 2012,*
- *Mr. Pascal Poupelle,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

The Dexia Group Master Netting Agreement (hereafter "DGMNA") was signed on November 2, 2009 between DSA, BIL, Belfius, DCL and Dexia Crediop SpA.
The DGMNA enables the parties to the agreement to net amounts due under transactions governed by different agreements, such as in particular the ISDA Master Agreements or other financial instrument framework agreements (hereafter the "Principal Agreements"). The DGMNA primarily seeks to enable netting in the event of default by one of the parties and therefore only enables netting when the transactions governed by the Principal Agreements are accelerated, terminated, liquidated or cancelled (hereafter "Close Out").
When one of the parties is in default as defined by the DGMNA, each of the other parties not in default may choose to Close Out all the transactions governed by the Principal Agreements to which said non-defaulting party is party.
BIL and Belfius are no longer parties of the DGMNA since respectively January 29, 2014 and November 2, 2015.
This agreement was approved by the shareholders' meeting of May 19, 2015 based on the Statutory Auditors' special report of March 31, 2015.
This agreement had no impact on 2018 financial statement.

Courbevoie and Neuilly-sur-Seine, April 16, 2019

French Original signed by the Statutory Auditors

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



Consolidated Financial Statements as at 31 December 2018

Consolidated balance sheet

ASSETS (in EUR million)	Note	31/12/2017 IAS 39	01/01/2018 IFRS 9	31/12/2018 IFRS 9
Cash and central banks	2.2	10,721	10,721	9,269
Financial assets at fair value through profit or loss	2.3 & 4.1	13,188	17,012	13,420
Hedging derivatives	4.1	4,985	4,977	1,263
Financial assets available for sale	2.4	10,830		
Financial assets at fair value through other comprehensive income	2.4		11,635	4,860
Financial assets at amortised cost - Debt securities	2.5		49,844	45,128
Interbank loans and advances	2.6	5,995		
Financial assets at amortised cost - Interbank loans and advances	2.6		30,645	23,654
Customer loans and advances	2.7	98,914		
Financial assets at amortised cost - Customer loans and advances	2.7		54,316	35,143
Fair value revaluation of portfolio hedges		1,314	1,175	748
Financial assets held to maturity	2.5	1,750		
Current tax assets		18	18	37
Deferred tax assets	4.2	29	29	20
Accruals and other assets	2.8	30,547	558	388
Non current assets held for sale	4.6	2,105	2,102	24,387
Tangible fixed assets	2.9	4	4	2
Intangible assets	2.10	34	34	37
TOTAL ASSETS		**180,434**	**183,070**	**158,356**

The notes on pages 67 to 151 are integral part of these consolidated financial statements

LIABILITIES (in EUR million)	Note	31/12/2017 IAS 39	01/01/2018 IFRS 9	31/12/2018 IFRS 9
Financial liabilities at fair value through profit or loss	3.1 & 4.1	14,192	14,911	11,872
Hedging derivatives	4.1	27,858	27,139	21,151
Interbank borrowings and deposits	3.2	31,760	31,550	20,930
Customer borrowings and deposits	3.3	6,426	10,159	4,873
Debt securities	3.4	89,654	89,654	67,959
Fair value revaluation of portfolio hedges		41	41	13
Current tax liabilities		1	1	3
Deferred tax liabilities	4.2	23	23	24
Accruals and other liabilities	3.5	3,931	407	400
Liabilities included in disposal groups held for sale	4.6	1,894	1,894	24,055
Provisions	3.6	222	234	226
Subordinated debt	3.7	160	160	126
TOTAL LIABILITIES		**176,162**	**176,173**	**151,632**
Equity	3.8	**4,272**	**6,897**	**6,724**
Equity, Group share		3,918	6,521	6,444
Capital stock and related reserves		2,465	2,465	2,465
Consolidated reserves		5,649	5,016	5,041
Gains and losses directly recognised in equity		(3,955)	(960)	(806)
Net result of the period		(241)		(256)
Minority interests		354	376	280
TOTAL LIABILITIES AND EQUITY		**180,434**	**183,070**	**158,356**

The notes on pages 67 to 151 are integral part of these consolidated financial statements

Consolidated statement of income

(in EUR million)	Note	31/12/2017 IAS 39 - restated (1)	31/12/2018 IFRS 9
Interest income	5.1	8,268	7,864
Interest expense	5.1	(8,059)	(7,777)
Commission income	5.2	14	11
Commission expense	5.2	(15)	(15)
Net gains (losses) on financial instruments at fair value through profit or loss	5.3	(108)	(144)
Net gains (losses) on financial assets available for sale	5.4	(60)	
Net gains (losses) on financial instruments measured at fair value through other comprehensive income	5.4		11
Net gains (losses) arising on derecognition of financial assets measured at amortised cost	5.5		(14)
Other income	5.6	43	17
Other expenses	5.6	(8)	(21)
NET BANKING INCOME		**75**	**(68)**
Operating expenses	5.8	(358)	(348)
Depreciation, amortisation and impairment of tangible fixed assets and intangible assets	5.9	(14)	(17)
GROSS OPERATING INCOME		**(297)**	**(433)**
Cost of credit risk	5.10	33	128
OPERATING INCOME		**(264)**	**(305)**
Net gains (losses) on other assets	5.11	2	9
NET RESULT BEFORE TAX		**(262)**	**(296)**
Income tax	5.12	(9)	(8)
Result from discontinued operations, net of tax	4.6	31	22
NET INCOME		**(240)**	**(282)**
Minority interests		1	(26)
NET INCOME, GROUP SHARE		**(241)**	**(256)**
Earnings per share, Group share (in EUR)	5.13		
Basic		(0.86)	(0.92)
- from continuing operations		*(0.97)*	*(1.00)*
- from discontinued operations		*0.11*	*0.08*
Diluted		(0.86)	(0.92)
- from continuing operations		*(0.97)*	*(1.00)*
- from discontinued operations		*0.11*	*0.08*

(1) Following the classification of Dexia Kommunalbank Deutschland (DKD) as discontinued operations (see also note 4.6), as required by the IFRS 5 standard, the consolidated income statement 2017 was restated to present DKD's results on the separate line "Result from discontinued operations, net of tax".

The notes on pages 67 to 151 are integral part of these consolidated financial statements

Consolidated statement of comprehensive income

(in EUR million)	31/12/2017 IAS 39			31/12/2018 IFRS 9		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
NET INCOME			**(240)**			**(282)**
Elements reclassified or likely to be subsequently reclassified in net income						
Cumulative translation adjustments	(128)		(128)	26	0	26
Revaluation of financial assets available for sale or reclassified into loans and receivables or into held-to-maturity financial assets(1)	888	(2)	886			
Changes in fair value of debt instruments at fair value through other comprehensive income				77		77
Revaluation of hedging derivatives	415		415	345	(1)	344
Other comprehensive income from disposal groups held for sale(2)	48	(1)	47	(287)	1	(286)
Elements that will never be reclassified or likely to be subsequently reclassified in net income						
Actuarial gains and losses on defined benefit plans	3		3	1		1
Own credit risk revaluation directly recognised in equity for the financial liabilities designated at fair value through profit or loss (FVTPL)	(75)	27	(48)	(5)	1	(4)
Transfer within consolidated reserves of own credit risk amounts related to financial liabilities designated at fair value through profit or loss, upon their derecognition(3)	(17)		(17)	(24)		(24)
Reevaluation directly recognised in equity of equity instruments at fair value through other comprehensive income				1		1
TOTAL UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY	**1,134**	**24**	**1,158**	**134**	**1**	**135**
NET RESULT AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY			**918**			**(147)**
of which, Group share			916			(102)
of which, Minority interests			2			(45)

(1): 31/12/2017 : the variation is explained for EUR 640 million by the changes in fair value directly recognised in own funds mainly as a consequence of the tightening of the spreads on Italian, Portuguese and Polish sovereigns.
(2): As at 31 December 2017, Dexia Israel was presented as Non current assets held for sale, the variation of its gains and losses directly recognised in equity (EUR 29 million, group share and EUR 18 million, minority interests) was presented separately. As at 31 December 2018, Dexia Israel left the scope of consolidation. This generated a movement of EUR -47 million. Also, Dexia Kommunalbank Deutschland being a non current assets held for sale, its gains and losses directly recognised in equity are in this item for an amount of EUR -238 million.
(3) Termination Guaranteed Investment Contracts (GICs)

The notes on pages 67 to 151 are integral part of these consolidated financial statements

Consolidated statement of changes in equity

(in EUR million)	Capital stock and related reserves: Capital stock	Related reserves	Treasury shares	Total	Consolidated reserves	Gains and losses: Change in fair value of financial assets available for sale or reclassified as loans and advances or as held-to-maturity financial assets, net of taxes	Change in fair value of debt instruments measured at fair value through other comprehensive income, net of taxes	Change in fair value of equity instruments measured at fair value through other comprehensive income, net of taxes
AS AT 31 DECEMBER 2016	**279**	**2,186**	**0**	**2,465**	**5,349**	**(4,115)**		
First application of IFRS 9 standard regarding own credit risk of financial liabilities at fair value(1)					(146)			
AS AT 1 JANUARY 2017	**279**	**2,186**	**0**	**2,465**	**5,203**	**(4,115)**		
Movements during the period								
Changes in capital								
Dividends								
Appropriation of net income 2016					442			
Subtotal of shareholders related movements					**442**			
Translation adjustments								
Own credit risk reclassified from accumulated other comprehensive income to equity upon reimbursement of financial liabilities at fair value through profit or loss					17			
Changes in fair value of financial assets available for sale or reclassified as loans and advances or as held-to-maturity financial assets, through equity						639		
Gains and losses of the period of cash flow hedge derivatives, through equity								
Changes in fair value of financial assets available for sale or reclassified as loans and advances or as held-to-maturity financial assets, through profit or loss						245		
Gains and losses of cash flow hedge derivatives reclassified in profit or loss								
Changes in fair value of financial liabilities designated at fair value through profit or loss arising from changes in own credit risk during the period								
Changes in actuarial gains and losses on defined benefit plans								
Transfers(2)						(1)		
Subtotal of changes in gains and losses directly recognised in equity					**17**	**884**		
Net income for the period								
Effect of acquisition and sales on minority interests(3)					(13)	0		
AS AT 31 DECEMBER 2017	**279**	**2,186**	**0**	**2,465**	**5,649**	**(3,231)**		
Appropriation of net income 2017					(241)			
First application of IFRS 9 standard					(392)	3,231	(247)	(1)
AS AT 1 JANUARY 2018	**279**	**2,186**	**0**	**2,465**	**5,016**		**(247)**	**(1)**
Movements during the period								
Translation adjustments								
Own credit risk reclassified from accumulated other comprehensive income to equity upon reimbursement of financial liabilities at FVTPL					24			
Changes in fair value of financial assets measured at fair value through other comprehensive income, through equity							155	1
Amounts reclassified to profit or loss following the impairment or the disposal of debt instruments measured at fair value through other comprehensive income							(77)	
Gains and losses of the period of cash flow hedge derivatives, through equity								
Gains and losses on cash flow hedge derivatives reclassified in profit or loss.								
Changes in fair value of financial liabilities designated at fair value through profit or loss attributable to own credit risk (OCR)								
Changes in actuarial gains and losses on defined benefit plans								
Transfers(4)							(1)	
Subtotal of changes in gains and losses directly recognised in equity					**24**		**77**	**1**
Net income for the period								
Impact disposal Dexia Israel								
Other variations					1			
AS AT 31 DECEMBER 2018	**279**	**2,186**	**0**	**2,465**	**5,041**		**(170)**	**0**

(1) As allowed by the standard IFRS9, since the 1st January 2017, Dexia Crédit Local recognises the own credit risk of its financial liabilities at fair value in the the gains and losses directly recognised in equity. The total amount of own credit risk as at 31 December 2016 (USD - 155 million) has been transfered in gains and losses directly recognised in equity.
(2): As Dexia Israel is presented as Non current assets held for sale, its gains and losses directly recognised in equity are presented separately.

The notes on pages 67 to 151 are integral part of these consolidated financial statements

directly recognised in equity						Net income, Group share	EQUITY, GROUP SHARE	Minority interests			EQUITY
Change in fair value of cash flow hedges, net of taxes	Change in unrealised or deferred gains and losses related to non current assets held for sale	Actuarial gains and losses on defined benefit plans	Change in fair value of financial liabilities designated at fair value through profit or loss attributable to own credit risk	Translation adjustments	Total			Capital and reserves	Gains and losses directly recognised in equity	Total	
(1,339)	**0**	**(7)**		**202**	**(5,259)**	**442**	**2,997**	**389**	**(18)**	**371**	**3,368**
			146		146		0				0
(1,339)	**0**	**(7)**	**146**	**202**	**(5,113)**	**442**	**2,997**	**389**	**(18)**	**371**	**3,368**
								4		4	4
								(33)		(33)	(33)
						(442)	0				0
						(442)	**0**	**(29)**		(29)	**(29)**
				(79)	(79)		(79)		(3)	(3)	(82)
			(17)		(17)		0				0
					639		639				639
341					341		341		(3)	(3)	338
					245		245		1	1	246
76					76		76				76
			(48)		(48)		(48)				(48)
		3			3		3		1	1	4
	29			(28)	0		0				0
417	**29**	**3**	**(65)**	**(107)**	**1,160**		**1,177**		**(4)**	**(4)**	**1,173**
						(241)	(241)	1		1	(240)
				(3)	(3)		(16)	12	3	15	(1)
(922)	**29**	**(4)**	**81**	**92**	**(3,955)**	**(241)**	**3,918**	**373**	**(19)**	**354**	**4,272**
						241	0				0
			(6)	**18**	2,995		2,603	**(17)**	**39**	**22**	2,624
(922)	**29**	**(4)**	**75**	**110**	**(960)**	**0**	**6,521**	**356**	**20**	**376**	**6,897**
				25	25		25				25
			(24)		(24)						0
					156		156				156
					(77)		(77)				(77)
136					136		136				136
(30)					(30)		(30)				(30)
			(4)		(4)		(4)				(4)
		1			1		1				1
239	(238)				0						
345	**(238)**				**183**		**207**				**207**
		1	(28)	25		(256)	(256)	(26)		(26)	(282)
	(29)				(29)		(29)	(51)	(19)	(70)	(99)
							1				1
(577)	**(238)**	**(3)**	**47**	**135**	**(806)**	**(256)**	**6,444**	**279**	**1**	**280**	**6,724**

(3) Impact of the reduction of Dexia Crédit Local's interest share in Dexia Israel

(4) As Dexia Kommunalbank Deutschland (DKD) is presented as Non current assets held for sale, its gains and losses directly recognised in equity are presented separately.

Consolidated cash flow statement

(in EUR million)	31/12/2017	31/12/2018
CASH FLOW FROM OPERATING ACTIVITIES		
Net income after income taxes	(240)	(282)
Adjustment for:		
- Depreciation , amortization and other impairment	14	16
- Impairment losses (reversal impairment losses) on bonds, equities, loans and other assets	(53)	
- Impairment losses (reversal impairment losses) on bonds, loans and other assets		(121)
- Net (gains) or losses on investments	(4)	(25)
- Net increases (net decreases) in provisions	(108)	6
- Unrealised (gains) or losses on financial instruments	131	64
- Deferred taxes	(5)	10
Changes in operating assets and liabilities	6,959	(282)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**6,694**	**(614)**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(15)	(19)
Sale of fixed assets	4	
Sales of unconsolidated equity shares	16	33
Sales of subsidiaries and of business units[1]		(632)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**5**	**(618)**
CASH FLOW FROM FINANCING ACTIVITIES		
Issuance of new shares (minority interests)[1]	4	0
Dividends paid (minority interests)[1]	(33)	0
Reimbursement of subordinated debts[2]	(282)	(34)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	**(311)**	**(34)**
NET CASH PROVIDED	**6,388**	**(1,266)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**5,564**	**11,832**
Cash flow from operating activities	6,694	(614)
Cash flow from investing activities	5	(618)
Cash flow from financing activities	(311)	(34)
Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents	(120)	48
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**11,832**	**10,614**
ADDITIONAL INFORMATION		
Income tax paid	(23)	(15)
Dividends received	2	5
Interest received	10,356	9,434
Interest paid	(10,236)	(9,261)

(1) Dexia Israel
(2) see note 3.7.b

The notes on pages 67 to 151 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Accounting policies and valuation methods, ownership interest in subsidiaries and other entities, significant items included in the statement of income, other significant event of the year, post-balance-sheet events and presentation of the effect of the standard IFRS 9 "Financial instruments" on the balance as at 1st January 2018

1.1. Accounting policies and valuation methods

GENERAL INFORMATION

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

These consolidated financial statements were authorised for issue by the Board of Directors on 21 March 2019.

NOTES TO THE FINANCIAL STATEMENTS

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

The common used abbreviations below are:

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

1.1.1. BASIS OF ACCOUNTING

1.1.1.1. General

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

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

Dexia Crédit Local's financial statements have therefore been prepared "in accordance with all IFRSs as adopted by the EU" and endorsed by the EC up to 31 December 2018, including the conditions of application of interest rate portfolio hedging and the possibility to hedge core deposits.

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

The consolidated financial statements of Dexia Crédit Local as at 31 December 2018 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions underlying the business plan for the resolution of the Dexia Group, decided upon by the European Commission in December 2012. They are listed below:

- The macroeconomic hypotheses underlying the business plan are revised as part of the half-yearly reviews of the overall plan. The update made on the basis of market data observable as at 30 June 2018 and validated by the Board of Directors of Dexia on 19 December 2018 integrates the regulatory developments known to date, including the final version of the CRD IV Directive. It also takes account of the extremely positive impact on the Dexia Crédit Local's regulatory capital of the first-time application of the IFRS 9 accounting standard as from 1 January 2018, with Dexia's Total Capital Ratio at 23.6% at the end of December 2018. Finally it takes account of the non-renewal, as from 1 January 2019, of the specific approach implemented by the European Central Bank for the supervision of the Dexia Group[1].
- The ongoing resolution assumes that Dexia Crédit Local retains a sound funding capacity, relying in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on the Group's capacity to raise secured funding. Since the end of 2012, Dexia Crédit Local has considerably reduced its funding requirement, diversified its access to different funding sources and taken advantage of favourable market conditions to extend the maturity of its liabilities, with a view to the prudent management of its liquidity. In particular, this enables Dexia Crédit Local to maintain a level of liquidity reserves which is deemed appropriate considering the restriction of access to European Central Bank funding announced on 21 July 2017[2]. The latest update of the business plan takes account of a revision of the funding plan relying on the last observable market conditions.

(1) Cf. Press Release issued by Dexia on 26 July 2018, available at www.dexia.com

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

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

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

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

• In particular, this plan is likely to be impacted by new developments in accounting and prudential rules.

• Dexia and Dexia Crédit Local are also sensitive to the evolution of the macroeconomic environment and to market parameters, particularly exchange rates, interest rates and credit spreads. An unfavourable evolution of these parameters over time could weigh on Dexia Crédit Local's liquidity and its solvency position, for instance by increasing the amount of cash collateral paid by Dexia Crédit Local to its derivatives counterparties or an impact on the valuation of financial assets and liabilities and OTC derivatives, fluctuations of which are booked in the income statement and are liable to result in a fluctuation of the level of regulatory capital.

• Discussions are ongoing between the European Commission and the Belgian and French States on the conditions of the renewal of the State guarantee as from 1 January 2022[1].

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

• Finally, Dexia Crédit Local is exposed to certain operational risks, specific to the resolution environment in which it operates.

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

1.1.1.2. Accounting estimates and judgements

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

Judgements are made principally in the following areas:

• classification of financial instruments into the appropriate category Amortised Cost, Fair Value Through Other Comprehensive Income, Fair Value Through Profit or Loss and Fair Value Option for measurement purposes based on the assessment of the Dexia Crédit Local's business model for managing financial instruments and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding (SPPI) (IFRS 9) (see 1.1.6.2);

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

• the use of valuation models when determining the fair value for financial instruments measured at fair value (see 1.1.7.);

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

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

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

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

• impairment determination based on expected credit loss (ECL) approach: determination of criteria for significant increase in credit risk, choice of appropriate models and assumptions for the measurement of ECL (IFRS 9) (see 1.1.6.2.5).

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

Estimates are principally made in the following areas:

• determination of expected credit losses (ECL) to be recognised for impairment of financial assets under IFRS 9: establishment of the number and relative weightings of forward-looking scenarios and determination of the forward looking information relevant to each scenario, determination of Probability of Default (PD) and Loss Given Default (LGD) (see 1.1.6.2.5.);

• determination of fair value less costs to sell for non-current assets and disposal groups held for sale (see 1.1.15.);

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

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

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

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

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

In the context of the reform initiated by the Financial Stability Board on the replacement of IBOR Interest benchmarks by alternative benchmarks, Dexia Crédit Local considers that there is no impact on the existing benchmarks, and therefore the effectiveness of its hedging relationships for the period ended at 31 December 2018[2].

Dexia Crédit Local also considers that the possibility of the transfer of its post-Brexit derivatives clearing activities to the European Union zone has no impact on its existing hedging relationships for the period ended 31 December 2018.

(1) Cf. Press Release issued by Dexia on 26 February 2019, available at www.dexia.com

(2) IASB decided in December 2018 to continue its research project "IBOR (Interbank Offered Rate) reform and the effects on financial reporting" in order to provide clarifications for accounting impacts of the reform.

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

1.1.2.1. IASB texts and IFRIC interpretations endorsed by the European Commission and applied as from 1 January 2018

• **IFRS 9** "Financial Instruments", which replaces IAS 39 "Financial Instruments: Recognition and Measurement", substantially changes accounting and financial reporting in three key areas: classification and measurement of financial assets, impairment and hedge accounting. Macro hedge accounting is addressed as a separate project by the IASB.
Changes introduced by IFRS 9 include:
– an approach for the classification and measurement of financial assets, which is driven by the business model in which an asset is held and its contractual cash flow characteristics;
– a single forward-looking model for the impairment based on expected credit losses;
– a substantially-reformed approach to hedge accounting.
In addition, IFRS 9 amends IFRS 7 "Financial Instruments: Disclosures" requiring more disclosed information about financial instruments.
The updated accounting policies to take into account IFRS 9 for classification and measurement of financial instruments and impairment of financial assets as applied from 1st January 2018 are presented in section 1.1.6.
As permitted by the transition provisions of IFRS 9, Dexia Crédit Local elected not to restate the information relating to the comparative periods. The accounting policies applicable to financial assets and liabilities under IAS 39 described in note 1.1.6.4 "Financial assets and liabilities (IAS 39)" apply for comparative periods.

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

Classification and measurement of financial assets

Based on the analysis of product characteristics, most of financial assets held by Dexia Crédit Local are considered as SPPI (Solely Payment of Principal and Interest) instruments and so eligible to the amortised cost according to the Dexia Crédit Local's business model for managing these assets. These assets are mainly vanilla floating or fixed rate loans or securities. In addition, Dexia Crédit Local early adopted the Amendment to IFRS 9 "Prepayment Features with Negative Compensation", issued in October 2017, which allows the instruments incorporating symmetric prepayment options to be measured at amortised cost or fair value through other comprehensive income.
Some structured loans to local public entities with a contractual interest rate based on a formula with leverage effect, indexed on currency exchange rates or long term interest rate index (such as "constant maturity swap" rates) are classified at Fair Value Through Profit or Loss (FVTPL).
Most of investments in equity instruments and mutual funds units are classified at FVTPL. However, some investments in equity instruments are designated on a case by case basis, at Fair Value through Other Comprehensive Income (FVOCI) (without transfer of amounts accumulated in OCI to profit or loss upon sales).

For financial assets considered as SPPI, the classification at AC or at FVOCI depends on Dexia Crédit Local's business model for managing these assets.
According to the Orderly Resolution Plan, approved by the European Commission in 2012, Dexia Crédit Local no longer has any commercial activities and its residual assets are being managed in run-off without accelerated sale of the whole assets of the Group in order to protect Dexia Crédit Local's capital base. Consistently with this Orderly Resolution Plan, Dexia Crédit Local will therefore collect the cash flows over the life of a major part of the SPPI assets which are measured at amortised cost. Another part of Dexia Crédit Local's SPPI financial assets, isolated in dedicated portfolios, is held within a business model collect and sale when market opportunities will appear. These assets are measured at FVOCI. The trade-off between these two portfolios was subject to strategic decisions made by Dexia Crédit Local during 2017 which were not modified during the year 2018.
Apart from derivatives, the trading portfolio of Dexia Crédit Local which is already measured at FVTPL under IAS 39 remains very limited.

Impairment of financial assets

According to the new IFRS 9 impairment model, the financial assets are allocated amongst 3 stages based on credit risk level of counterparties, as defined by the prudential regulation and consistently with the definition used for internal credit risk management (see note 1.1.6.2.5. for detailed information).

Hedge accounting

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

First time application options

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

Operational implementation of accounting principles

In 2018, Dexia Crédit Local continued to test and refine the new process and governance framework necessitated by the adoption of IFRS 9. In particular, new tools and governance were set up, allowing the follow-up, validation and control of disposals and restructurings of financial assets held to collect the contractual cash flows over the life of assets. The calculation tools used for the collective provisions were also updated as well as the governance related to validation of parameters, back-testing and quarterly results.

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

The adoption of IFRS 9 effective 1st January 2018 has resulted in an increase in IFRS consolidated equity as of 1st January 2018 of EUR 2,624 million. This effect is comprised of classification and measurement changes of EUR 2,807 million, as well as effects from the implementation of impairment requirements based on an ECL methodology of EUR -183 million. The application of IFRS 9 has no significant impact on deferred taxes. Further details are provided hereafter in "Presentation of effect of the standard IFRS 9 "Financial Instruments" on the balance as at 1st January 2018 ."

Other elements

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

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

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

No transitional adjustment was recognised in retained earnings on the date of initial application of the standard (modified retrospective approach).

The updated accounting policies to take into account IFRS 15 as applied from 1st January 2018 are presented in section 1.1.9.

- **Amendment to IFRS 7** "Financial Instruments: Disclosures" .The new standard IFRS 9 amends IFRS 7 requiring more information to be provided in the notes for financial instruments. The impact of this amendment on Dexia Crédit Local's financial statement disclosures is presented in particular in the notes related to credit risk and hedge accounting (see Notes 7.2 Credit risk exposure and 7.8 Hedge accounting).
- **Amendment to IFRS 4** "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts". This amendment has no impact on the financial statements of Dexia Crédit Local as Dexia Crédit Local is not involved in insurance activities.
- **Amendment to IFRS 1** "First-time Adoption of International Financial Reporting Standards" ("Annual Improvements 2014-2016"). This amendment does not impact the financial statements of Dexia Crédit Local as Dexia Crédit Local is not a first-time adopter.
- **Amendment to IAS 28** "Investments in Associates and Joint Ventures" ("Annual Improvements 2014-2016"). This amendment does not impact the financial statements of Dexia Crédit Local as Dexia Crédit Local has no investments in associates or joint ventures.
- **Amendment to IFRS 2** "Classification and Measurement of Share-based Payment Transactions". This amendment has no impact on the financial statements of Dexia Crédit Local as Dexia Crédit Local has no share-based payments.
- **Amendment to IAS 40** "Transfers of Investment Property". This amendment has no impact on the financial statements of Dexia Crédit Local as Dexia Crédit Local has no investment property.
- **IFRIC Interpretation 22** "Foreign Currency Transactions and Advance Consideration". This interpretation does not have a material impact on Dexia Crédit Local's financial statements.

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

- IFRIC 23 "Uncertainty over Income Tax Treatments". This interpretation is effective as from 1 January 2019 and Dexia Crédit Local does not expect this interpretation to have a material impact on its financial statements.

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

- **Amendment to IAS 19** "Plan Amendment, Curtailment or Settlement" (issued by IASB in February 2018). This amendment is effective as from 1 January 2019 with earlier application permitted and the impact on Dexia Crédit Local's financial statements is currently being assessed.
- **Amendment to References to the Conceptual Framework in IFRS Standards** (issued by IASB in March 2018). This amendment is effective as from 1 January 2020 and the impact on Dexia Crédit Local's financial reporting is currently being assessed.
- **Amendment to IFRS 3** "Business Combinations" (issued by IASB in October 2018). This amendment is effective as from 1 January 2020, with early application permitted and its impact on Dexia Crédit Local's financial statements is currently being assessed.
- **Amendments to IAS 1 and IAS 8** "Definition of Material" (issued by IASB in October 2018). This amendment is effective as from 1 January 2020 and its impact on Dexia Crédit Local's financial statements is currently being assessed.

1.1.2.4. New standard IFRS 16 "Leases"

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

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

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

IFRS 16, being endorsed by the European Commission, is effective as from 1 January 2019.

Ongoing transition project and impacts

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

For Dexia Crédit Local, as lessee, application of the new standard will result in an increase in assets and liabilities related to lease agreements currently accounted for as operating leases. The estimated maximum impact on Dexia Crédit Local's balance sheet as at 1 January 2019 is expected to be below EUR 100 million. This impact is mainly due to the lease contracts of office buildings used by the Dexia Crédit Local group entities. After analysis, Dexia Crédit Local's contracts for servers and other IT equipments are not impacted by the application of IFRS 16.

For Dexia Crédit Local, as lessor, the expected impact should be limited.

First time application principles, options and exemptions retained

As permitted by the transition requirements of IFRS 16, Dexia Crédit Local applies the new standard to contracts that had been previously identified as leases under the current IAS 17 standard.

As lessee, Dexia Crédit Local decided to apply the simplified retrospective transition method by recognizing the cumulative effect of the first time application of the standard as an adjustment to the opening balance of retained earnings on the date of the first application.

In accordance with IFRS 16, Dexia Crédit Local does not apply the new standard to leases of intangible assets (eg software) and has decided not to apply the new lease accounting model to lease contracts with the term of less than one year (including renewal options) and to contracts of assets with a unit value of less than EUR 5,000.

On initial application, for contracts previously classified as operating leases under IAS 17 and considering the transition method chosen by Dexia Crédit Local as a lessee, Dexia Crédit Local will apply the following principles:

- Regarding the lease liability, on initial application Dexia Crédit Local will measure it at the present value of remaining lease payments, discounted for each contract using incremental borrowing rate at the transition date.

In order to determine the lease term, Dexia Crédit Local considers the non-cancellable period of the contract considering, if applicable, by renewal and termination options, if Dexia Crédit Local is reasonably certain to use an option. In accordance with the conclusion of the ANC (Autorité des Normes Comptables, Authority for Accounting Standards) on the leases with the term 3-6-9, Dexia Crédit Local considers that its contracts are enforceable for 9 years.

- Regarding the right-of-use asset, Dexia Crédit Local decided to measure it at the date of first application at the amount equal to the lease liability, determined at the transition date, adjusted by the amount of any prepaid or accrued lease payments.

In addition, Dexia Crédit Local will apply transition practical expedients as authorised by IFRS 16, including the recognition of leases with the remaining term within 12 months from the date of first application as if they were short-term leases, etc.

1.1.2.5. New standard IFRS 17 "Insurance Contracts"

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

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

The condensed consolidated financial statements of Dexia Crédit Local have been prepared in accordance with the ANC (Autorité des Normes Comptables, Authority for Accounting Standards) presentation. As at 31 December 2018, they are compliant with ANC Recommendation 2017-02 issued on 2 June 2017 "on the presentation of the consolidated financial statements of banks prepared in accordance with International Financial Reporting Standards" which cancels and replaces the Recommendation 2013-04 issued on 7 November 2013.

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

The major changes include:

- IAS 39-specific asset categories, such as "Loans and advances", "Financial assets held to maturity", "Financial assets available for sale," have been superseded by the new categories "Financial assets at amortised cost" (with the split between Interbank loans and advances, Customer loans and advances and Debt securities) and "Financial assets at fair value through OCI."
- Cash collaterals, previously presented within "Accruals and other assets" and "Accruals and other liabilities", are now included in items Financial assets at amortised cost – Interbank loans and advances / Customer loans and advances and Financial liabilities at amortised cost – Interbank borrowings and deposits / Customer borrowings and deposits.
- New lines have been created in Consolidated statement of income to present separately gains and losses on financial assets measured at FVOCI and AC and on reclassification of financial assets between categories.
- New lines have been created in Consolidated statement of comprehensive income to identify separately changes in FV for investments in equity instruments designated at FVOCI and for debt instruments classified at FVOCI.
- A new line, Non-trading assets mandatorily at FVTPL, has been created in Notes to present separately impacts on non SPPI financial assets which are not held for trading and mandatorily measured at fair value through profit or loss under IFRS 9.

1.1.3. CONSOLIDATION

1.1.3.1. Subsidiaries and structured entities

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

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

- power over the entity;
- exposure, or rights, to variable returns from its involvement with the entity;
- the ability to use its power over the entity to affect those returns.

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

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

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

The ability to direct the relevant activities is assessed by considering: the purpose and design of the investee; managing financial assets during their life, including the management upon default; selecting, acquiring, disposing or replacing of assets; appointing and remunerating an investee's key management personnel and terminating their employment. Dexia Crédit Local determines whether it is exposed, or has rights, to variable returns by considering: dividends and other distributions of economic benefits; exposure to loss through instruments that absorbs variability (including CDSs as sellers of protection or junior tranches designed to absorb the first losses and paid on credit risk exposure basis); remuneration for servicing an investee's assets or liabilities; returns that are not available to other interest holders.

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

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

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

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

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

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

The fair value of any investment retained in the former subsidiary at the date on which control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 "Financial Instruments" or, where applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

1.1.3.2. Associates and joint venture.

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

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

Dexia Crédit Local has no equity method investments.

1.1.4. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

The derivative instruments transacted by Dexia Crédit Local with clearing houses that meet the two criteria required by IAS 32 are offset on the balance sheet. Offsetting effects are disclosed in the note 4.3. "Offsetting financial assets and financial liabilities".

1.1.5. FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

1.1.5.1. Foreign currency translation

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

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

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

1.1.5.2. Foreign currency transactions

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

1.1.6. FINANCIAL ASSETS AND LIABILITIES

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

As permitted by the transition provisions of IFRS 9, Dexia Crédit Local has chosen not to restate the information relating to the comparative periods. The accounting policies applicable to financial assets and liabilities under IAS 39 described in note 1.1.6.4 "Financial assets and liabilities (IAS 39)" apply to comparative periods.

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

1.1.6.1. Recognition and derecognition of financial instruments

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

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

Dexia Crédit Local derecognises all or part of a financial asset if the contractual rights to the cash flows from the financial asset expire, including following substantial changes to its contractual terms (see 1.1.6.2.4 Accounting for early repayments and restructuring of loans (IFRS 9), or if these contractual rights to receive the cash flows of the financial asset or substantially all of the risks and rewards of ownership are transferred. In this case, any rights or obligations created or retained at the time of transfer are recognised separately as assets and liabilities.

Dexia Crédit Local recognises the financial liabilities on its balance sheet when it becomes party to the contractual provisions of the instrument. Dexia Crédit Local derecognises financial liabilities only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. A financial liability may also be derecognised as a result of substantial changes in its contractual terms.

1.1.6.2. Classification and measurement of financial assets (IFRS9)

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

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

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

1.1.6.2.1. Classification and measurement of debt instruments (IFRS9)

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

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

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

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

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

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

Dexia Crédit Local's debt instruments are mainly SPPI which includes vanilla floating or fixed rate loans or securities. Dexia Crédit Local's non-SPPI debt instruments include some structured loans to local public entities with a contractual interest rate based on a formula with leverage effect, indexed on currency exchange rates or long term interest rate index (such as "constant maturity swap" rates).

Business model assessment

The business model assessment is done on a portfolio basis and is relevant for debt instruments to assess whether they are allowed to be measured at AC and FVOCI.
The business model reflects how a group of debt instruments is managed based on objectives determined by the key management personnel of Dexia Crédit Local. A business model is a matter of fact and typically observable and is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective and depending on how cash flows are generated (collecting contractual cash flows and/or selling the assets).
To determine the classification and measurement of financial assets, three different business models shall be distinguished:
- a business model whose objective is to collect contractual cash flows over the life of the instrument;
- a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- and other business models including held for trading, where collecting contractual cash flows is only incidental.

Consistently with the Orderly Resolution Plan, approved by the European Commission in 2012, to manage the residual assets in run-off without accelerated sale, Dexia Crédit Local will therefore collect the cash flows over the life for a major part of its assets. Another part of Dexia Crédit Local's financial assets, isolated in dedicated portfolios, is held within a business model collect and sale when market opportunities will appear.
Dexia Crédit Local exercises judgment to determine the appropriate level at which to assess its business models.
Any significant sale project of a financial asset that is managed within the business model whose objective is to collect contractual cash flows over the life of the instrument is subject to analysis and validation by the Transaction Committee, acting as a competence center at Group level.

Debt instruments measured at Amortised Cost (AC)

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

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

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

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

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

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

All other debt instruments are classified in the FVTPL category and consist of assets:
- not held in business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. This is the case for example for the financial assets Held for trading acquired for generating a profit from short-term fluctuations in price or dealer's margins, or included in a portfolio in which a pattern of short-term profit-taking exists.
- or alternatively, held in such business model but the contractual terms of the instrument give rise, on specified dates, to cash flows that are not SPPI.

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

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

In some cases and if appropriately documented, Dexia Crédit Local can irrevocably designate, on initial recognition, a financial asset that otherwise meets the requirements to be measured at AC or at FVOCI as to be measured at FVTPL (Fair

Value Option (FVO)) where such designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would otherwise arise.
Unrealised gains and losses on these assets are recorded in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". According to Dexia Crédit Local's accounting policy choice, interest is recognised in net interest income.

Reclassifications between categories

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

1.1.6.2.2. Classification and measurement of investments in equity instruments (IFRS9)

Financial equity instruments within the scope of IFRS 9 are classified in one of the following categories:
- Mandatorily measured at Fair Value Through Profit or Loss (FVTPL) as non-SPPI financial instrument;
- Equity instruments designated at Fair Value through Other Comprehensive Income (FVOCI).

Dexia Crédit Local does not have any equity securities held-for-trading.
Dexia Crédit Local initially recognises and subsequently measures assets mandatorily measured at FVTPL at their fair value in the line "Financial assets at fair value through profit or loss". All realised and unrealised gains and losses and dividend income from investments in equity instruments measured at FVTPL are recorded in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss".
At initial recognition and on a case by case basis, Dexia Crédit Local can make an irrevocable election to include equity investments not held for trading in the FVOCI category under "Financial assets at fair value through OCI". These instruments are subsequently measured at fair value with all changes recognised in other comprehensive income under "Changes in FV of equity instruments at FVOCI" and without any recycling into the income statement. Upon disposal of the investment, Dexia Crédit Local reclassifies the realised amounts within equity and presents them under the heading "Consolidated reserves". Assets classified into this category are not subject to impairment.
Dividend income from investments in these equity instruments designated at FVTOCI are recognised in the income statement under "Net gains (losses) on financial instruments measured at FVOCI".

1.1.6.2.3. Classification and measurement of derivative instruments (trading and hedging) (IFRS 9)

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

Trading derivatives

Derivative instruments which are not designated in a hedge relationship are measured at fair value through profit or loss and Dexia Crédit Local makes a distinction as follows:
- derivatives that are held with a hedging intent but for which hedge accounting cannot be or is not applied (economic hedge). All changes in fair value are recognised in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest is recognised in net interest income.
- derivatives held without hedging intent (trading derivative). All fair value changes on such derivatives are recognised under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest is recognised in net interest income.

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

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

Hedging derivatives

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

1.1.6.2.4. Accounting for early repayments and restructuring of loans (IFRS 9)

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

Restructured and modified financial assets

When a financial asset restructuring takes place, each case is considered individually. Modifications represent contract amendments that result in an alteration of future contractual cash flows. The method of accounting for restructured and modified loan and early repayment indemnities differ depending on whether or not the restructuring results in terms that are substantially different from those set initially.
A substantial modification of the terms of an existing financial asset is accounted for as an extinguishment of the original financial asset and the recognition of a new financial asset. A restructuring that leads to a derecognition is not considered as a sale of a financial asset within a business model whose objective is to hold the asset to collect the contractual cash flows over the life of the asset.
The followings, but not limited, factors are considered to determine if the terms of the asset after restructuring must be considered as substantially different on a qualitative basis:
- SPPI / Non SPPI nature of the contractual cash flows;
- the currency that the debt instrument is denominated in;
- the interest rate;

- conversion features attached to the instrument;
- changes in covenants;
- change in counterparty.

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

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

A restructuring or modification of a financial asset measured at AC or of a financial asset measured at FVOCI could lead to a substantial change in the terms and conditions, resulting in the original financial asset being derecognised. The early repayment indemnity is recognised immediately in the income statement in "Net gains (losses) on financial instruments measured at FVOCI" or "Net gains (losses) on financial assets measured at AC" based on the classification of the asset. A new financial asset is recognised at fair value.

1.1.6.2.5. Impairment on financial assets (IFRS 9)

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

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

In this model, each financial instrument (except assets that are purchased or originated in default) is allocated amongst 3 stages according to the wording used by IFRS 9) depending of the evolution of credit risk since initial recognition:

– Stage 1: Financial instruments that have not deteriorated significantly in credit quality since initial recognition

– Stage 2: Financial instruments that have deteriorated significantly in credit quality since initial recognition but that do not have objective evidence of a credit loss

– Stage 3: Financial assets that have objective evidence of impairment at the reporting date, i.e. the related counterparty is identified as defaulted.

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

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

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

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

Significant Increase in Credit Risk (SICR)

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

The quantitative test consists in comparing lifetime average through the cycle PDs of the contract at the reporting date and at the inception date. This variation of PD is then normalised by the PD of the worst pre-default rating, defined accordingly to the sector of the counterparty. This normalisation permits to estimate the significance of the PD variation and also allows a homogeneous comparison of this variation between different sectors. These PDs are considered over a time horizon equal to the initial maturity of the financial instrument.

If the variation is above a given threshold, then, the variation of the PDs indicates that there is a significant deterioration of credit risk and that the financial instrument shall be allocated in Stage 2. This threshold is calibrated so as to anticipate a possible default in a horizon of at least 2 years, such as validated by the Dexia Crédit Local's Management. It is included in regular validation processes by governance bodies.

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

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

The PD at origination is not expected to be modified and is determined once and for all for each exposure. However, if the contractual terms of a financial asset are restructured (i.e. renegotiated or refinanced), and if this restructuring leads to a derecognition according to IFRS 9 accounting rules, the restructured asset is considered as a new asset. This new asset is either recognised as a POCI (Purchased or Originated Credit Impaired) if it meets the identification criteria for this type of assets and in this case a life-time ECL will be recognised, or it is initially recognised in Stage 1. The test of SICR is then performed on the new characteristics of the restructured asset. The PD at origination is therefore updated given the

(1) Forbearance measures are concessions granted to counterparties facing financial difficulties.

(2) Sensitive sectors are economic sectors which demonstrate indication(s) of elevated credit risk.

rating of the counterparty at the restructuring date and the maturity of the restructured financial asset.

Measurement of Expected Credit Losses

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

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

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

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

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

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

The methodology to construct the upturn and downturn scenarios is based upon the historical error range observed between economic forecasts and empirical observations. Probability-weighted ECLs are then obtained by weighting the various scenario ECL outcomes with probabilities of the two alternative scenarios.

Cure rate: The probability that a counterparty cures the default to return to a normal situation (i.e. with zero loss) is taken into account in all risk parameters estimation.

Credit Risk Mitigants: The credit risk deterioration is measured by the default risk evolution of the original counterpart. The guarantors contractually allocated to the exposure (for example the credit risk enhancer) are taken in account in the calculation of credit risk expected loss by applying the probability of double default of both the borrower and the guarantor. The other guarantees (like the mortgages, pledges, cash collateral) when they are not recognised separately are taken into account in the calculation of expected credit loss by reducing the loss in case of default.

Discounting: Yearly probability weighted ECLs are discounted to the reporting date by the effective interest rate.

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

Expected Credit Losses calculation for financial instruments classified in Stage 3

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

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

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

Accounting treatment of expected credit losses

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

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

For purchased or originated credit impaired financial assets, the amount of loss allowance recognised in profit or loss is the cumulative changes in lifetime expected credit losses since initial recognition. The amount of favorable change in lifetime expected credit losses is recognised in profit or loss as an impairment gain.

1.1.6.3. Classification and measurement of financial liabilities (IFRS 9)

1.1.6.3.1. Liabilities at amortised cost (IFRS9)

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

1.1.6.3.2. Liabilities held for trading (IFRS9)

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

1.1.6.3.3. Liabilities designated at Fair Value Through Profit or Loss (FVO) (IFRS9)

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

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

For subsequent measurement, based on the IFRS 9 requirements early applied by Dexia Crédit Local as from 1 January

2017, Dexia Crédit Local recognises unrealised gains or losses on financial liabilities designated as at Fair Value Through Profit or Loss as follows:

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

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

However, if the treatment of liabilities designated as at fair value through profit or loss as described above would create an accounting mismatch in profit or loss, all changes in the fair value are presented by Dexia Crédit Local in profit or loss. According to Dexia Crédit Local's accounting policy choice, interest is recognised in net interest income.

1.1.6.4 Financial assets and liabilities (IAS 39)

1.1.6.4.1. Loans and advances due from banks and customers (IAS 39)

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

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

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

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

1.1.6.4.2. Financial instruments measured at fair value through profit or loss (IAS 39)

Loans and securities held for trading

Dexia Crédit Local reports loans held for trading purposes in the line "Financial assets at fair value through profit or loss" at their fair value, with unrealised gains and losses recorded in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest income is accrued using the effective interest rate method and is recognised in net interest income.

Trading securities are securities acquired for generating a profit from short-term fluctuations in price or dealer's margins, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Dexia Crédit Local initially recognises trading securities at fair value and subsequently remeasures them at fair value. All realised and unrealised gains and losses are recorded under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest earned is recognised in net interest income, and dividends received under "Net gains (losses) on financial instruments at fair value through profit or loss".

Liabilities held for trading

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

Loans and securities designated at fair value through profit or loss (FVO)

In some cases and if appropriately documented, Dexia Crédit Local can designate a financial asset, a financial liability or a group of financial instruments as "at fair value through profit or loss" where:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- an instrument contains a non-closely related embedded derivative:

– that significantly modifies the cash flows that otherwise would be required by the contract; or

– for which it is not clear, with little or no analysis, that the separation of the embedded derivative is prohibited.

Unrealised gains and losses on these assets are recorded in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest is recognised in net interest income.

Liabilities designated at fair value through profit or loss (FVO)

For subsequent measurement, based on the IFRS 9 requirements early applied by Dexia Crédit Local as from 1 January 2017 (see 1.1.2.5.), Dexia Crédit Local recognises unrealised gains or losses on financial liabilities designated as at fair value through profit or loss as follows:

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

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

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

Derivatives - Trading portfolio

When a derivative is not designated in a hedge relationship, it is deemed to be held for trading. The main types of derivatives are the currency and the interest-rate derivatives.

Dexia Crédit Local, which also makes use of credit derivatives and equity derivatives, initially and subsequently measures all derivatives at the fair value obtained from quoted market prices, discounted cash flow models or pricing models, as appropriate.
All changes in fair value are recognised in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest is recognised in net interest income.
Dexia Crédit Local reports derivatives as assets when fair value is positive and as liabilities when fair value is negative.
Dexia Crédit Local treats certain derivatives embedded in other financial instruments as separate derivatives:
• when their risks and characteristics are not closely related to those of the host contract; and
• when the hybrid contract is not carried at fair value with unrealised gains and losses reported in the income statement.
Dexia Crédit Local reports embedded derivatives which were separated under the same heading as the host contract.

1.1.6.4.3. Financial investments (IAS 39)

Held-to-maturity
Dexia Crédit Local classifies the interest-bearing financial assets with fixed maturity quoted in an active market as "Financial assets held to maturity" (HTM) when management has both the intent and the ability to hold the assets to maturity.
Dexia Crédit Local recognises such interest-bearing financial assets initially at fair value plus transaction costs and subsequently at amortised cost, less any allowance for impairment. Interest is recognised based on the effective interest rate method and recorded in net interest income.

Available-for-sale
Dexia Crédit Local classifies financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, as "Financial assets available for sale" (AFS).
Dexia Crédit Local recognises financial assets initially at fair value (including transaction costs). Interest is recognised based on the effective interest-rate method and recorded in net interest income. Dexia Crédit Local recognises dividend income from variable-income securities under "Net gains (losses) on financial assets available for sale".
Dexia Crédit Local subsequently re-measures available-for-sale financial assets at fair value (see 1.1.7. Fair value of financial instruments). Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised within equity under the heading "Unrealised or deferred gains and losses".
When assets are disposed of, or impaired, Dexia Crédit Local recycles the related accumulated fair value adjustments in the income statement in "Net gains (losses) on financial assets available for sale". However, the gains and losses on impaired debt instruments are recognised in "Cost of risk".

1.1.6.4.4. Impairments on financial assets (IAS 39)

Dexia Crédit Local records allowances for impairment losses when there is objective evidence that a financial asset or group of financial assets is impaired as a result of one or more events occurring after initial recognition and evidencing (a) a decline in the expected cash flows and (b) the impact on the estimated future cash flows that can be reliably estimated.

Financial assets valued at amortised cost
Dexia Crédit Local first assesses whether objective evidence of impairment exists individually for financial assets. If no such evidence exists, the financial assets is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.
There is objective evidence of individual impairment when a counterparty has or is likely to have difficulties meeting its commitments. An asset is also likely to be impaired if it is past due for more than three months.
Collective impairments are recognised if an incurred risk is identified on a sector and on portfolios of assets considered sensitive and placed on watch.

Determination of the impairment
• Specific impairments – If there is objective evidence that loans or other receivables, or financial assets classified as held-to-maturity are impaired, the amount of the impairment on specifically identified assets is calculated as the difference between the carrying amount and the estimated recoverable amount, being the present value of expected cash flows, including judgements on the amounts recoverable from guarantees and collateral, discounted at the financial instrument's original effective interest rate (except for reclassified assets, see below). When an asset is assessed as being impaired, it is excluded from the portfolio on which a collective impairment is calculated. Assets with small balances that share similar risk characteristics follow the principles as described below.
• Collective impairments – Collective impairments cover losses incurred where there is no specific impairment but objective evidence of losses in segments of the portfolio or other lending-related commitments at the balance-sheet date. Dexia Crédit Local estimates them based upon the historical patterns of losses in each segment, the credit ratings allocated to the borrowers and reflecting the current economic environment in which the borrowers operate. Dexia Crédit Local develops for that purpose credit-risk models using an approach that combines appropriate default probabilities and loss-given defaults that are subject to regular back-testing and are based on Basel II data and risk models, consistently with the "incurred-loss" model. Assumptions are made to define the way inherent losses are modelled and to determine the required parameters, based on historical experience.

Accounting treatment of the impairment
Dexia Crédit Local recognises changes in the amount of impairment losses in the income statement in "Cost of risk". The impairment losses are reversed through the income statement if the increase in fair value relates objectively to an event occurring after the impairment was recognised.
When an asset is determined by management to be uncollectable, the outstanding specific impairment is reversed via the income statement under the heading "Cost of risk" and the net loss is recorded under the same heading. Subsequent recoveries are also accounted for under this heading.

Reclassified financial assets
Dexia Crédit Local can reclassify financial assets initially classified as "available-for-sale" or in rare circumstances "held for trading" into "held-to-maturity" or "loans and receivables" categories. Thus, a reclassification to "loans and receivables" is possible when assets "available-for-sale" are not any longer quoted in active markets and when Dexia Crédit Local has the intent and the ability to hold the asset in the foreseeable future or to maturity.

A reclassification to "held-to-maturity" is possible as a result of a change in Dexia Crédit Local's intention regarding "available-for-sale" assets, when Dexia Crédit Local has the intention and ability to hold these financial assets until maturity and provided that these assets are non-derivative assets with fixed or determinable payments and fixed maturity.
In such circumstances, the fair value of "available-for-sale" assets at the date of transfer becomes the new amortised cost of those financial assets. Any fair value adjustment previously recognised under "Other comprehensive income" is "frozen" and amortised on the residual maturity of the instrument. Regarding the calculation of impairment, reclassified financial assets are governed by the same estimates, judgements and accounting principles as financial assets initially valued at amortised cost. If there is objective evidence that reclassified financial assets are impaired, Dexia Crédit Local calculates the amount of the impairment on reclassified assets as the difference between the net carrying amount of the asset and the net present value of the expected cash-flows discounted at the recalculated effective yield at the time of reclassification. Any unamortised part of the frozen AFS reserve is recycled in the income statement and reported under the heading "Cost of risk" as a part of the impairment.

Available-for-sale assets

Dexia Crédit Local recognises the impairment of available-for-sale assets on an individual basis if there is objective evidence of impairment as a result of one or more events occurring after initial recognition.

Determination of the impairment

- Equities – For equities quoted in an active market, any significant decline in their price (more than 50% at reporting date) or a prolonged decline (5 years) compared to the acquisition price is considered as an objective evidence of impairment. In addition, management can decide to recognise impairment losses should other objective evidence be available.
- Interest-bearing financial instruments – In the case of interest bearing financial instruments, impairment is triggered based on the same criteria as applied to individually impaired financial assets valued at amortised cost (see 1.1.6.5.1).

Accounting treatment of the impairment

When available-for-sale equity securities are impaired, the total AFS reserve is recycled and these impairment losses are reported by Dexia Crédit Local in the income statement in "Net gains (losses) on financial assets available for sale". Additional decline in fair value is recorded under the same heading for equity securities.
When an impairment loss has been recognised on interest-bearing financial instruments, any subsequent decline in fair value is recognised in "Cost of risk" if there is objective evidence of impairment. In all other cases, changes in fair value are recognised in "Other comprehensive income".
Impairments on equity securities cannot be reversed in the income statement due to later recovery of quoted prices.

Off-balance-sheet exposures

Dexia Crédit Local usually converts off-balance-sheet exposures such as credit substitutes (e.g., guarantees and standby letters of credit) and loan commitments into on-balance-sheet items when called. However, there may be circumstances such as uncertainty about the counterparty, where the off-balance-sheet exposure should be regarded as impaired. Dexia Crédit Local recognises provisions on loan commitments if the credit worthiness of the client has deteriorated to such an extent as to make the repayment of any loan and associated interest payments doubtful (see 1.1.22).

1.1.6.4.5. Accounting for early repayments and restructuring of loans (IAS 39)

Dexia Crédit Local has determined the accounting principles applicable to the restructuring of loans in accordance with AG 62 of IAS 39 dealing with the restructuring of financial liabilities.
There are several possibilities for accounting, depending on whether the early repayment is recognised as not being an extinguishment (with refinancing) or as an extinguishment (no refinancing).

Case of early repayment with refinancing

The method of accounting for loan early repayments and early repayment indemnities differs depending on whether or not the restructuring results in terms that are substantially different from those set initially. In accordance with the principles of AG 62, Dexia Crédit Local considers that the terms are substantially different when the net present value of the cash flows under the new terms, including any fees paid net of any fees received, is at least 10% different from the net present value of the remaining cash flows from the original loan.
The accounting treatment of loans and early repayment indemnities depends on the results of the eligibility test. If the eligibility test is passed, i.e. the income statement difference is less than 10%, the original loan is not derecognised and the early repayment indemnity is amortised over the remaining term of the restructured loan. Otherwise, i.e. the difference exceeds 10%, the original loan is derecognised and the early repayment indemnity is recognised immediately in the income statement in "Net gains (losses) on financial assets available for sale".

Case of early repayment without refinancing

When the loan has been extinguished, the early repayment indemnity, as well as any gains or losses arising from an unamortised premium or discount, is recognised in the income statement in "Net gains (losses) on financial assets available for sale" as income for the period, as required by IFRS.

1.1.6.4.6. Borrowings (IAS 39)

Dexia Crédit Local recognises borrowings initially at fair value, being generally their issue proceeds, net of any transaction costs incurred. Subsequently, borrowings are stated at amortised cost. Dexia Crédit Local recognises any difference between their initial carrying amount and the redemption value in the income statement over the period of the borrowings using the effective interest rate method.
The distinction between interest-bearing instruments and equity instruments issued is based on the substance of their underlying contracts rather than their legal form.

1.1.7. FAIR VALUE OF FINANCIAL INSTRUMENTS

1.1.7.1. Valuation principles

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Quoted market prices in an active market for identical instruments are to be used as fair value, as they are the best evidence of the fair value of a financial instrument.

If a financial instrument is not traded on an active market, recourse is provided by valuation models. The objective of a valuation model is to determine the value that is most representative of fair value under current market conditions. Dexia Crédit Local's valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

The valuation model should take into account all factors that market participants would consider when pricing the asset. Measuring the fair value of a financial instrument requires consideration of current market conditions. To the extent that observable inputs are available, they should be incorporated into the model.

Financial assets and liabilities recognised at fair value or for which fair value is calculated for disclosures are categorised into one of three fair value hierarchy levels. The following definitions used by Dexia Crédit Local for the hierarchy levels are in line with IFRS 13 texts:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: valuation techniques based on inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Level 3: valuation techniques for which significant inputs are not based on observable market data.

According to Dexia Crédit Local's policy, transfers between levels of the fair value hierarchy are performed at fair value at the end of the reporting period.

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

1.1.7.2. Valuation techniques

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

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

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

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

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

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

Dexia Crédit Local's approach to the valuation of its financial instruments is based as much as possible on observable market data. These valuations are based on independent external market data providers and standard quantitative approaches. The departments Financial Market Risk and Product Control regularly monitor the quality of valuations:

- the valuations of derivatives are compared with those provided by a number of counterparties and analysed quarterly during an ad hoc committee;
- transaction execution levels are used to ensure the quality of the valuation approaches;
- the valuation approaches are regularly reviewed and are subject to validation by the Department of Validation.

In order for a fair value to qualify for level 2 inclusion, observable market data should be significantly used. The market data that Dexia Crédit Local incorporates in its valuation models are either directly observable data (prices), indirectly observable data (spreads) or deducted from observable data (price or spread) for similar instruments. Fair value measurements that rely significantly on unobservable data or on own assumptions qualify for level 3 disclosure.

The fair value governance involves several committees that deal with valuation issues. The highest one, the Management Board supervises major decisions taken by lower levels committees (Market Risk Committee and Validation Advisory Committee). This governance ensures a strong control framework for valuation issues as well as the independence between the Front Office, Market Risk and Validation teams, with the aim of producing reliable valuation estimates for the risk monitoring of the trading activity as well as for a fair presentation of the financial and solvency situation of the Group. Dexia Crédit Local general principles for the valuation ensure the use of quoted and observable prices when available or valuation models that take into account all factors that market participants would consider. Models are developed by the Front Office Funding and Markets or Financial Market Risk and are validated by the Department of Validation. Depending on their availabilities, data may come from different sources as tradable or indicative quotes. They are produced by Product Control. An inventory of the products is regularly produced, with their main features, their materiality and their model status.

For bonds and loans for which no active market exists, Dexia Crédit Local maximises the use of market data.

Dexia Crédit Local uses a discount cash-flow model, based on a credit spread. The credit spread is estimated from market data which are directly available from external contributors (Bloomberg, Markit,…) or, when there is no data available for a given instrument, from the issuer credit curve which is adjusted to take into account the characteristics of the specific instrument (maturity,…), or, if the issuer curve is not available, from available market data for similar instruments (from the same economic sector, rating, currency,…).

Concerning the valuation of derivatives, Dexia Crédit Local adjusts the market value to take into account credit risks (Credit Valuation Adjustment (CVA) / Debit Valuation Adjustment (DVA)) and funding costs (Funding Valuation Adjustment (FVA)).

A CVA reflects the counterparty's risk of default and a DVA reflects Dexia Crédit Local's own credit risk.

When determining the CVA / DVA, Dexia Crédit Local considers two different markets:

- The market of collateralised 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 uncollateralised derivatives, where there is a risk on the fair value of the derivative at the balance-sheet date and also on the expected change of value over the life of the derivative.

Based on projections, positive expected exposures are used for a CVA calculation and negative expected exposures are used for a DVA calculation.

For CVA/DVA calculation, the Probability of Default (PD) parameters are based on market data and market conventions. The Loss Given Default (LGD) parameters are based on market conventions or on internal statistical data taking into account observed recovery rates.

Based on the assumptions that market participants would consider when determining the fair value, Dexia Crédit Local uses for the discounting an overnight rate (OIS) curve for all derivatives, regardless if they are collateralised or not.

A Funding Valuation Adjustment (FVA) takes into account the funding costs associated to its uncollateralised derivative positions. As these uncollateralised derivatives are not subject to margin calls, the bank benefits from savings in funding or bears the cost depending on the direction of their net balance sheet position, and on the market values of these derivatives. The level of funding costs used in determining the FVA reflects the funding of the exposure related to uncollateralised derivatives at rates different from overnight rates.

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

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

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

1.1.8. INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest rate method based on the initial carrying value (including transaction costs) for financial instruments not valued at fair value through P&L.

Transaction costs are the incremental costs that are directly attributable to the acquisition of a financial asset or liability. An incremental cost is one that would not have been incurred if the entity had not acquired the financial instrument.

Accrued interest is reported in the same line as the related financial asset or liability in the balance sheet.

Interest income and expenses on derivatives are presented on a gross basis by instrument.

Following the decision of IFRS IC and according to the view of the European Banking Authority (EBA), Dexia Crédit Local presents negative remuneration on assets together with interest expense and positive remuneration on liabilities together with interest income.

1.1.9. FEE AND COMMISSION INCOME AND EXPENSE

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

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

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

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

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

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

1.1.10. HEDGING DERIVATIVES

While awaiting the future standard on macro hedging, and as permitted under IFRS 9, Dexia Crédit Local keeps applying the current hedge accounting requirements (IAS 39) for all its micro and macro-hedge relationships.

Hedging derivatives are categorised as either:

- a hedge of the fair value of a recognised asset or liability or a firm commitment (fair value hedge); or
- a hedge of a future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge); or
- a hedge of a net investment in a foreign operation.

Dexia Crédit Local designates derivatives as hedging instruments if certain criteria are met:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is available before hedge accounting is applied;
- the hedge is documented in such a way as to show that it is expected to be highly effective both prospectively and retrospectively in offsetting changes in the fair value or cash flows attributable to the hedged risk in the hedged item throughout the reporting period; and
- the hedge is effective at inception and on an ongoing basis.

Dexia Crédit Local records changes in the fair value of derivatives that are designated, and qualify, as fair value hedges in the income statement, along with the corresponding change in fair value of the hedged assets or the liabilities that is attributable to that specific hedged risk.

If the hedge no longer meets the criteria for a fair value hedge and the hedged item is still recognised, Dexia Crédit Local amortises the adjustment to the carrying amount of a hedged interest-bearing financial instrument to the income statement over the remaining life of the hedged or hedging instrument if shorter by an adjustment of the yield of the hedged item.

Dexia Crédit Local recognises the effective part of the changes in the fair value of derivatives that are designated and qualify as cash flow hedges, in "Other comprehensive income" under the heading "Unrealised or deferred gains and losses" (see "Consolidated statement of changes in equity"). Any non-effective portion of the changes in the fair value of the hedging instrument is recognised in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". Changes in the fair value of derivatives in respect of Credit Valuation Adjustment (CVA), Debit Valuation Adjustment (DVA) and Funding Valuation Adjustment (FVA) are recognised in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". Amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the periods during which the hedged firm commitment or forecast transaction affects the income statement.

1.1.11. HEDGE OF THE INTEREST RATE RISK EXPOSURE OF A PORTFOLIO

Dexia Crédit Local makes use of the provisions in IAS 39 as adopted by the European Union ("IAS 39 carve-out") because it better reflects the way in which Dexia Crédit Local manages its financial instruments.

Hedge accounting is intended to reduce the interest rate risk exposure stemming from the selected category of assets or liabilities designated as the qualifying hedged items.

Dexia Crédit Local performs a global analysis of interest rate risk exposure. It consists in assessing fixed-rate exposure, taking into account all the exposure coming from balance sheet and off-balance-sheet items. This global analysis may exclude certain components of the exposure, such as financial market activities, provided that the risk exposure stemming from the excluded activities is monitored on an activity-by-activity basis.

Dexia Crédit Local applies the same methodology to select which assets and/or liabilities will be entered into the hedge of interest rate risk exposure of the portfolio. Assets and liabilities are included in all the time buckets of the portfolio. Hence, when they are removed from the portfolio, they must be removed from all the time buckets in which they had an impact. Demand deposits and savings accounts may be included in the portfolio based on behavioural study for estimating expected maturity date. Dexia Crédit Local may designate as qualifying hedged items different categories of assets or liabilities such as loans or securities measured at amortised cost or fair value through other comprehensive income, etc.

On the basis of this gap analysis, which is realised on a net basis, Dexia Crédit Local defines, at inception, the risk exposure to be hedged, the length of the time-bucket, the test method and the frequency of the tests.

The hedging instruments are a portfolio of derivatives, which may contain offsetting positions. Dexia Crédit Local recognises the hedging items at fair value with adjustments accounted for in the income statement.

Dexia Crédit Local reports hedged interest rate risk revaluation of elements carried at amortised cost on the balance sheet under the line "Fair value revaluation of portfolio hedge".

1.1.12. DAY ONE PROFIT OR LOSS

The day one profit or loss is applicable to all transactions measured at fair value through profit or loss.

The day one profit or loss is the difference between:

- the transaction price and the quoted market price; in cases where the transaction is quoted; or
- the transaction price and the fair value determined by using a valuation technique, (mark-to-model) adjusted with some market value adjustments, such as a liquidity adjustment, model adjustment or credit adjustment in cases where the transaction is not quoted.

If Dexia Crédit Local considers the main parameters of the model as observable and if Risk Management validates the model, the day one profit or loss will be recognised immediately in the income statement.

If Dexia Crédit Local considers the main parameters as unobservable or if Risk management does not validate the model, the day one profit or loss will be amortised linearly over the expected life of the transaction. However, if the data becomes observable subsequently, Dexia Crédit Local will recognise the remaining portion of day one profit or loss in the income statement.

In cases of early termination, the remaining portion of day one profit or loss will be recognised in the income statement. In cases of partial early termination, Dexia Crédit Local will recognize in the income statement the part of the day one profit or loss relating to the partial early termination.

1.1.13. TANGIBLE FIXED ASSETS

Tangible fixed assets include property, plant & equipment and investment properties.

All property, plant & equipment are stated at their cost less accumulated depreciation and impairments. Subsequent costs are, where necessary, included in the carrying amount of the asset or recognised as a separate component, if it is probable that future economic benefits will flow to the Group and the cost of the asset can be reliably measured.

Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives.

The main useful lives are as follows:

- Buildings (including acquisition costs and non deductible taxes): 20 to 50 years;
- Computer equipment: 3 to 6 years;
- Leasehold improvements, equipment and furniture: 2 to 12 years;
- Vehicles: 2 to 5 years.

An item of property, plant & equipment can be composed of significant parts with individually varying useful lives. In such a case, each part is depreciated separately over its estimated useful life. The following parts have been defined:

- Structure of the building: 50 years;
- Roof and frontage: 30 years;
- Technical installations: 10 to 20 years;
- Fixtures and fittings: 10 to 20 years.

As borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset they are capitalised. Other borrowing costs are recognised as an expense.

Tangible fixed assets are tested for impairment when an indication of impairment loss exists. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Where the recoverable amount of an asset cannot be determined individually the Group determines the recoverable amount of the cash generating unit or group of cash generating units to which the asset belongs. Gains and losses on disposals of property and equipment are determined by reference to their carrying amount and are included under "Net gains (losses) on other assets".

Investment properties are those properties held to earn rentals or for capital appreciation. Dexia Crédit Local may also partly use such properties. If the "own use" portions can be sold separately or leased out separately under finance lease, then these portions are accounted for separately. If the "own use" portions cannot be sold separately, the property will be considered as an investment property if Dexia Crédit Local holds an insignificant portion for its own use.

Investment properties are recorded at its cost less accumulated depreciation and impairments. The investment properties are depreciated over their useful lives on a straight-line basis. Depreciation on buildings and other assets given in operating lease are booked under "Other expenses".

1.1.14. INTANGIBLE ASSETS

Intangible assets consist mainly of (a) internally generated and (b) acquired software. The costs associated with maintaining computer software programs are recognised as expense as incurred. However, expenditure that enhances or extends the benefits of computer software programs beyond one year is used to increase the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives from the time the software is available for use. This amortisation period is usually between three and five years, except for core business applications, for which the amortisation period is can be up to 10 years.

As borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset they are capitalised. Other borrowing costs are recognised as an expense.

Intangible assets (other than goodwill) are tested for impairment when an indication of impairment loss exists. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Gains and losses on disposals of intangible assets are determined by reference to their carrying amount and are included under "Net gains (losses) on other assets".

1.1.15. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets (or groups of assets) whose carrying amount will be recovered principally through a sale transaction rather than through continuing use are classified as non-current assets (or disposal groups) "held for sale" if:

- they are available for immediate sale in their present condition; and
- their sale is highly probable within one year.

Dexia Crédit Local measures a non-current asset (or disposal group) classified as held for sale at its carrying amount or at its fair value less costs to sell (whichever is the lower). Non-current assets (or disposal groups) classified as held for sale are presented separately in the balance sheet, without restatement for previous periods. When a disposal group is classified in held for sale, items of Other Comprehensive Income are isolated in a separate publication line of the equity. These assets are no longer depreciated once they qualify as assets (or disposal groups) held for sale. Intercompany accounts between the continuing activities and the disposal group held for sale continue to be eliminated.

A discontinued operation is defined as a component of an entity that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations. Post-tax profit or loss of discontinued operations is presented under a separate line in the income statement. A restatement for previous periods is performed.

1.1.16. GOODWILL

Dexia Crédit Local has no goodwill on its balance sheet and will not acquire any controlling interests in the future following the orderly resolution plan of the group.

1.1.17. ACCRUALS AND OTHER ASSETS

Accruals and other assets mainly include accrued income (non-interest related), prepayments, operational taxes and other accounts receivable as well as insurance products (reinsurance, insurance premiums receivables, etc.), construction contracts, inventories, plan assets relating to employee benefit obligations. These other assets are measured in accordance with the applicable standard. Plan assets are recognised in accordance with IAS 19 (revised) requirements.

Cash collaterals, presented in accruals under IAS 39, are now included within "Financial assets at amortised cost".

1.1.18. LEASES

A finance lease is one that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

1.1.18.1. Dexia Crédit Local is the lessee

Dexia Crédit Local grants operating leases principally for the rental of equipment or real estate. Lease rentals are recognised in the income statement on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

If the lease agreement substantially transfers the risk and rewards of ownership of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception the asset is recorded as the present value of the minimum lease payments or the fair value (whichever is the lower) and is depreciated over its estimated useful life unless the lease term is short and the title is not expected to be transferred to Dexia Crédit Local. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policies applicable to that asset. The corresponding rental obligations are recorded as borrowings and interest payments are recorded using the effective interest rate method.

1.1.18.2. Dexia Crédit Local is the lessor

Dexia Crédit Local grants both operating and finance leases.

Revenue from operating leases is recognised in the income statement on a straight-line basis over the lease term. The underlying asset is accounted for in accordance with the accounting policies applicable to this type of asset.

For finance leases, Dexia Crédit Local recognises "leases receivable" at an amount equal to the net investment in the lease, which can be different from the present value of minimum lease payments.

The interest rate implicit in the lease contract acts as the discount rate. Interest income is recognised over the term of the lease using the interest rate implicit in the lease.

1.1.19. SALE AND REPURCHASE AGREEMENTS AND LENDING OF SECURITIES

Securities sold subject to a linked repurchase agreement ("repos") are not derecognised because, despite the transfer of ownership of securities, there is no substantial transfer of risks and rewards and remain in their original category. The corresponding liability is entered under "Interbank borrowings and deposits" or "Customer borrowings and deposits", as appropriate. The asset is reported as "pledged" in the notes.

Securities purchased under agreements to resell ("reverse repos") are recorded as off-balance-sheet items and the corresponding loans recorded as "Interbank loans and advances" or "Customer loans and advances".

The difference between the sale and repurchase price is treated as interest income or expense and is accrued over the life of the agreements using the effective interest rate method.

Securities lent to counterparties are not derecognised but, rather recorded in the financial statements in the same heading.
Securities borrowed are not recognised in the financial statements.
If they are sold to third parties, the gain or loss is entered under "Net gains (losses) on financial instruments at fair value through profit or loss" and the obligation to return them is recorded at fair value under "Financial liabilities at fair value through profit or loss".

1.1.20. DEFERRED INCOME TAX

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.
The principal temporary differences arise from the depreciation of property, plant & equipment, the revaluation of certain financial assets and liabilities (including derivative contracts, provisions for pensions and other post-retirement benefits), provisions for loan and other impairments and, in relation to acquisitions, from the difference between the fair value of the net assets acquired and their tax base.
The tax rates used are the rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.
Deferred tax assets and liabilities are not discounted. Deferred tax assets on deductible temporary differences and tax loss carry-forwards are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences and tax losses can be utilised.
Deferred tax liability is provided on taxable temporary differences arising from investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.
Current and deferred taxes are recognised under "Corporate income tax" in the income statement together with related interests and penalties if they are deemed equivalent to these taxes. Otherwise interests and penalties on late payments related to income taxes are recognised in the interest margin in net banking income.
On the other hand, deferred tax related to the fair value remeasurement of assets measured at FVOCI and cash flow hedges, and other transactions recorded directly in equity, are also credited or charged directly to equity.

1.1.21. EMPLOYEE BENEFITS

1.1.21.1. Short-term benefits

Short-term benefits, payable before 12 months after the end of the annual reporting period in which the service is rendered, are measured on an undiscounted basis and recognised as an expense.
Employee entitlement to annual leave or long-service leave is recognised when it is granted to the employee. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance-sheet date.

1.1.21.2. Post-employment benefits

If Dexia Crédit Local has a legal or constructive obligation to pay post-employment benefits, the plan is either classified as "defined benefit" or "defined contribution plan". Dexia Crédit Local offers a number of defined benefits and defined contribution plans, the assets of which are generally held by insurance companies or pension funds. The pension plans are generally funded by payments from both Dexia Crédit Local and its employees.
In some cases, Dexia Crédit Local provides post-retirement health care benefits to its retirees.

1.1.21.2.1. Defined benefit plans

Employee benefit obligations are measured at the present value of the estimated future cash outflows using the interest rates of AA-rated corporate bonds, which have terms to maturity approximating to the terms of the related liability. The valuation technique for the assessment of pension expenses incorporates actuarial assumptions comprising both demographic assumptions and financial assumptions such as the inflation rate.
For defined benefit plans, the cost is determined using the Projected Unit Credit Method, under which each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to built up the final obligation.
The amount recognised in the balance sheet is the present value of the defined benefit obligation (i.e., the present value of the expected future payments required to settle the obligation resulting from the employee service in the current and prior periods), reduced by the fair value of plan assets at the balance-sheet date. The defined obligation is presented net of plan assets as a liability or an asset. Therefore, an asset may arise where a plan has been overfunded and are recorded separately if those assets are held by a Group entity. Any asset recognised is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.
Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets (excluding net interest) and any change in the effect of the asset ceiling (excluding net interest), they are recognised immediately in other comprehensive income and are not reclassified to profit or loss in a subsequent period.
Current service cost, past service cost (which is the change in the present value of the defined benefit obligation, resulting from a plan amendment or a curtailment) and any gain or loss on settlement are recognised in profit or loss.
Net interest on the net defined benefit liability (asset) is recognised in profit or loss. It is calculated by applying the discount rate used to measure the defined benefit obligation to the net defined benefit liability (asset), both as determined at the start of the annual reporting period, and taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
Qualified external actuaries carry out valuations of these defined benefit obligations. All valuations assumptions and results are reviewed and validated by an external actuary for Dexia Crédit Local that ensures that all calculations are harmonised and calculated in compliance with IAS 19 (as revised in 2011).

1.1.21.2.2. Defined contribution pension plans

Dexia Crédit Local's contributions to defined contribution pension plans are charged to the income statement in the year to which they relate. Under such plans, Dexia Crédit Local's obligations are limited to the contributions that Dexia Crédit Local agrees to pay into the fund on behalf of its employees.
The Belgian defined contribution pension plans are by law subject to minimum guaranteed return.

As a consequence of the Belgian law of 18 December 2015, minimum returns are guaranteed by the employer as follows: (i) for the contributions paid as from 1 January 2016, a new variable minimum return based on OLO rates, with a minimum of 1.75% and a maximum of 3.75%. In view of the low rates of the OLO in the last years, the return has been initially set to 1.75%, (ii) for the contributions paid until end December 2015, the previously applicable legal returns (3.25% and 3.75% respectively on the employer and employee contributions) continue to apply until retirement date of the participants.
The rates set for employer contributions and employee contributions apply as an average over the entire career.
In view of the minimum returns guarantees, those plans qualify as Defined Benefit plans and are determined using the Projected Unit Credit Method.

1.1.21.2.3. Retirement termination payments

Retirement termination payments are treated as defined benefit plans.

1.1.21.3. Other long-term benefits

These mainly includes provisions for jubilee premiums that employees receive after completion of specified periods of service.
Unlike defined benefit plans, actuarial gains and losses relating to these benefits are immediately recognised. All past service costs are recognised immediately in the income statement.

1.1.21.4. Termination benefits

A termination benefit provision is recorded at the earlier of the following dates:
- when Dexia Crédit Local can no longer withdraw the offer of those benefits; and
- when Dexia Crédit Local recognises costs for a restructuring that involves the payment of termination benefits.

1.1.21.5. Share-based payment

Dexia Crédit Local offered equity-settled share-based payments like stock options plans (SOPs) and employee share purchase plans (ESPPs) and cash-settled share-based payments.
The fair value of equity-settled plans was measured at grant date by reference to the fair value of the underlying equity instrument based on valuation techniques and on market data and took into account market-based vesting conditions. The impact of other vesting conditions was reflected in the accounts via an adjustment of the number of equity instruments included in the measurement. The fair value, recognised as a remuneration expense, was credited against equity.
In cash-settled share-based payments, the services received and the liability incurred, to pay for those services, were measured at the fair value of the liability. This fair value was measured at the grant date and at each reporting date until settled. The value was recognised as a remuneration expense with a corresponding increase in liabilities.

1.1.22. PROVISIONS

Provisions are mainly recognised for litigations claims, restructuring, and loan commitments.
Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The discount rate is the pre-tax rate that reflects current market assessments of the time value of money.
Provisions are recognised when:
- Dexia Crédit Local has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

Provisions on loan commitments are recognised according to an ECL impairment model introduced by IFRS 9 (see 1.1.6.2.5 Impairment on financial assets)
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1.1.23. SHARE CAPITAL AND TREASURY SHARES

1.1.23.1. Share issue costs

External incremental costs directly attributable to the issue of new equity securities, other than as part of a business combination, are deducted from equity net of any related income tax.

1.1.23.2. Dividends on Dexia Crédit Local's ordinary shares

Dexia Crédit Local recognises its dividends on its ordinary shares as a liability from the date on which they are declared. Any dividends for the year declared post-balance-sheet date are disclosed in the subsequent events note.

1.1.24. RELATED-PARTY TRANSACTIONS

Two parties are considered to be related if one has the ability to control the other or exercises significant influence over the other party's financial policy or operational decisions or is a member of the key management personnel of the other party or of a parent. Transactions with companies accounted for by the equity method are reported, as are those with the Directors.

1.1.25. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with a maturity of less than 3 months maturity from the date of acquisition included within cash and balances with central banks, interbank loans and advances.

1.1.26. EARNINGS PER SHARE

The "Basic earnings per share" are calculated by dividing the net income available to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by Dexia Crédit Local and held as treasury shares.
For the "Diluted earnings per share", the weighted average number of ordinary shares in issue and the net income are adjusted to assume conversion of all dilutive potential ordinary shares, such as the convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when the derivatives are "in the money" and their conversion to shares would decrease net earnings per share.

1.2. Ownership interest in subsidiaries and other entities

a. Criteria for consolidation and use of the equity method

The Dexia Crédit Local Group applies all rules with regard to the consolidation scope resulting from:
- IFRS 10 on the preparation and presentation of consolidated financial statements;
- IFRS 3 on business combinations and the impact of accounting methods on the consolidated accounts;

- IAS 28 (revised) on Investments in associates and joint ventures;
- IFRS 11 on Joint Arrangements.

The policies laid down by these standards imply that all companies over which the Group exercises exclusive or joint control or notable influence must be consolidated.

Consequently, all companies exclusively or jointly controlled, or over which the group holds a notable influence, are consolidated.

Pursuant to the principle of a true and fair view of the financial statements of the Group, any companies whose contribution to the consolidated financial statements is not material shall not be included in the consolidation scope.

Entities are considered as non-significant when, at consolidated level, the aggregate of their total asset, liabilities, equity and net income does not exceed 1% of the total of consolidated balance sheet and net income (respectively EUR 1.58 billion and EUR 3.21 million (average on 3 years) in 2018). As at 31 December 2018, the sum of the total balance sheet and net income of unconsolidated entities does not exceed this threshold.

b. Changes in the consolidation scope compared with 31 December 2017

On March 17, 2018, Dexia Crédit Local reached an agreement with qualified investors concerning an off-market transaction about the sale of all its shares in Dexia Israel, representing 58.89% of the capital. The sale was agreed at a price of NIS 674 per share, for a total amount of around EUR 81 million. Dexia Crédit Local therefore deconsolidated the company on January 1, 2018,

c. Impact of changes in scope on the consolidated income statement

Dexia Crédit Local recorded in its consolidated financial statements a gain of EUR 8 million on the sale of Dexia Israel. This gain is calculated on the basis of the financial statements prepared by Dexia Israel on January 1, 2018 after adoption of IFRS9 and is presented in *Net gains or losses on other assets*. This gain includes a positive amount of EUR 28 million for the reclassification of the translation adjustments in net income and a negative amount of EUR -20 million due to the difference between the sale price and the share of Dexia Crédit Local in Dexia Israel's own funds.

d. Scope of the Dexia Crédit Local Group as at 31 December 2018

A. Fully consolidated entities

Name	31 December 2017				31 December 2018			
	Country	Method	Control rate	Interest rate	Method	Control rate	Interest rate	Ref
PARENT COMPANY								
Dexia Crédit Local SA	France							
Dexia Crédit Local, Dublin Branch	Ireland	FC	100	100	FC	100	100	
DCL New York Branch	USA	FC	100	100	FC	100	100	
DCL Sucursal en España	Spain	FC	100	100	FC	100	100	
DCL sucursal em Portugal	Portugal	FC	100	100				S1
SUBSIDIARIES								
Dexia CLF Régions Bail	France	FC	100	100	FC	100	100	
Dexia Crediop	Italy	FC	70	70	FC	70	70	
Dexia Financial Products Services LLC(2)	USA	FC	100	100	FC	100	100	
Dexia Flobail	France	FC	100	100	FC	100	100	
Dexia FP Holdings Inc(1)	USA	FC	100	100	FC	100	100	
Dexia Holdings, Inc	USA	FC	100	100	FC	100	100	
Dexia Israel Bank Ltd.	Israel	FC	58,89	58,89				S3
Dexia Kommunalbank Deutschland GmbH	Germany	FC	100	100	FC	100	100	
FSA Asset Management LLC(2)	USA	FC	100	100	FC	100	100	
FSA Capital Management Services LLC(2)	USA	FC	100	100	FC	100	100	
FSA Capital Markets Services LLC(2)	USA	FC	100	100	FC	100	100	
FSA Global Funding LTD(1)	Cayman Islands	FC	100	100	FC	100	100	
FSA Portfolio Asset Limited (UK)(2)	United Kingdom	FC	100	100	FC	100	100	
Premier International Funding Co(3)	Cayman Islands	FC	0	0	FC	0	0	
WISE 2006-1 PLC	Ireland	FC	100	100	FC	100	100	

(1) Companies consolidated by Dexia Holdings Inc.
(2) Companies consolidated by Dexia FP Holdings Inc.
(3) Companies consolidated by FSA Global Funding Ltd.

Method *FC: Fully Consolidated*
Ref *Out of scope*
S1: Cessation of activity (including dissolution, liquidation)
S2: Company deconsolidated since become below the thresholds
S3: Disposal

B. Non fully consolidated subsidiaries and associated companies not accounted for by the equity method

Name	Country	31 December 2017			31 December 2018			Ref
		Method	Control rate	Interest rate	Method	Control rate	Interest rate	
DCL Evolution	France	not FC	100	100	not FC	100	100	
Dexia Crediop Ireland	Ireland	not FC	100	70				S1
Dexia Crédito Local México SA de CV (Sofom Filial)	Mexico	not FC	100	100	not FC	100	100	
Dexia Kommunalkredit Romania	Romania	not FC	100	100	not FC	100	100	
Dexia Management Services Limited	United Kingdom	not FC	100	100	not FC	100	100	
European public infrastructure managers	Luxembourg	not EM	20	20	not EM	20	20	
Genebus Lease	France	not FC	100	100	not FC	100	100	
Impax New Energy Investor	Luxembourg	not EM	24.99	24.99	not EM	24.99	24.99	
New Mexican Trust	Mexico	not FC	100	100	not FC	100	100	
Progetto Fontana (in liquidation)	Italy	not FC	100	100	not FC	100	100	
South European Infrastructure Equity Finance Ltd Partnership	Luxembourg	not EM	20.83	20.83	not EM	20.83	20.83	
SPS – Sistema Permanente di Servizi Scpa in liquidazione e concordato preventivo	Italy	not EM	20.4	14.28	not EM	20.4	14.28	

Ref *Out of scope*
S1: Cessation of activity (including dissolution, liquidation)
S2: Company deconsolidated since become below the thresholds
S3: Disposal

Method *FC: Fully Consolidated*
not FC: not Fully Consolidated
not EM: not accounted for by the Equity Method

C. Other significant companies held by the Group

Nil.

Nature of the risks associated with an entity's interests in consolidated structured entities

As part of the sale of FSA to Assured Guaranty, Dexia retained the Financial Products activity and, generally, agreed to indemnify FSA and Assured Guaranty for any losses they may suffer in relation to that activity. The Financial Products activity includes the Global Funding business which includes a portion of the assets and liabilities of FSA Global Funding and of Premier International Funding Co.

Dexia Crédit Local did not provide, financial or other support to a consolidated structured entity when Dexia Crédit Local was not contractually obliged to do so, nor has an intention to do so in the future.

Dexia Crédit Local did not provide financial or other support resulted in the entity controlling the structured entity.

e. Significant restrictions on assets and liabilities of an entity

Following IFRS 12, Dexia Crédit Local provides the list of significant restrictions on its ability to access or use the assets and settle the liabilities of the Group.

The information regarding financial assets pledged as collateral for liabilities or contingent liabilities is presented in note 7.3.b.

The assets guaranteeing the secured debt issued by covered bonds entities and the guaranteed investment contracts are presented in note 7.3.b.

Certain assets held by Dexia Crédit Local and benefiting from a credit risk hedge in the form of a guarantee or even a CDS are subject to some legal restrictions, commonly called "Representation to Hold clauses"[(1)]

Some restrictions concern structured entities. They take the form of segregation of assets in order to satisfy the obligations of the issuer to the noteholders as well as requirement of agreement from the insurer or the guarantor.

Pursuant to the European Commission Decision of 28 December 2012, there is a general ban on the payment of any form of dividend by any subsidiary controlled directly or indirectly by Dexia, in particular when such a payment would entail mandatory payment of a coupon on Tier 1 hybrid instruments or Tier 2 instruments held by persons other than Dexia and its subsidiaries.

Regulated entities are required to comply with regulatory requirements applicable to them.

Furthermore, some regulators limit the ability of a subsidiary or branch under their supervision, to finance the parent company above a certain threshold.

f. Interest in unconsolidated structured entities

This is mainly a securitisation vehicle (FCC) of loans to customers. This vehicle is financed through the issuance of notes.

Interests in unconsolidated structured entities (in EUR million)	Securitisation Special Purpose Entities	Other activities	Total
Derivatives	160		160
Debt securities	250		250
Loans and advances	50		50
TOTAL	**460**		**460**
Total assets of unconsolidated structured entities	**750**		**750**

The maximum exposure to loss is the fair value of derivatives and the amortised costs of other instruments.

Dexia Crédit Local is considered to be a sponsor of a structured entity when it is primarily involved in the design and

(1) Guarantee contracts with monolines (or with banks acting as intermediary for monolines) contain "representation to hold clauses" which (more or less strictly) oblige the beneficiary to hold the guaranteed assets until the end-term of the guarantee.

establishment of the structured entity and when it transferred assets to the structured entity or provided guarantees regarding the structured entity's performance. Dexia Crédit Local, as a run-off structure does not have income anymore from sponsored structure without interest in the entity as at 31 December 2018.

g. Subsidiaries with minority interests that are material

Minority interests are considered material when they represent more than 5% of equity group share or when minority interests represent more then 5% of total assets.

Dexia Crediop s.p.a	31/12/2017	31/12/2018
Percentage of ownership held by minority interests	30%	30%
Principle place of business	Italy	Italy
Accumulated minority interests (in EUR million)	282	280
Profit or loss allocated to minority interests (in EUR million)	(1)	(26)
Dividend paid to minority interests (in EUR million)	0	0
Assets (in EUR million)	20,531	18,320
Liabilities (in EUR million)	19,590	17,387
Equity (in EUR million)	941	933
Net banking income (in EUR million)	36	(60)
Profit or loss (in EUR million)	(3)	(86)
Total comprehensive income (in EUR million)	(4)	(86)

h. Signature of a a sale and purchase agreement concerning Dexia Kommunalbank Deutschland

On 14 December 2018, Dexia Crédit Local signed with the German banking group Helaba a sale agreement allowing Helaba to buy 100% of the shares in Dexia Kommunalbank Deutschland (DKD) for a total consideration of EUR 352 million. The transaction is expected to close during the second quarter of 2019. It will have a non-significant impact on Dexia Crédit Local's solvency and will account for a reduction of approximately 15% of its balance sheet.

Pursuant to the transaction, Dexia Crédit Local will also terminate, with effect as of the closing date of the sale, the Letters of Support it had issued to DKD.

In accordance with the IFRS 5 accounting standard, DKD's assets and liabilities are presented on a separate line in the Group's consolidated balance sheet, in "Non current assets held for sale" and "Liabilities included in disposal groups held for sale". DKD's post-tax income has also been classified on a separate line in the Group's consolidated income statement "Result from discontinued operations, net of tax".

See note 4.6 *Information on disposals groups held for sale and discontinued operations.*

1.3 Significant items included in the statement of income

Over the year 2018, Dexia Crédit Local posted a net result Group share of EUR -256 million. (EUR -241 million in 2017)

According to the IFRS 5 standard, Dexia Kommunalbank Deutschland's contribution to the result is presented in *Result from discontinued operations, net of tax* for EUR +22 million and the presentation of the 2017's consolidated statement of income has been restated.

The net banking income was negative, at EUR -68 million. As in 2017, in addition to the carrying costs of assets, this amount in particular included negative impacts associated with the valuation of derivatives, as well as disposals gains and provisions for legal risk.

Net gains and losses on financial instruments at fair value through profit or loss, at EUR -144 million (EUR -108 million in 2017), included an amount of EUR -188 million for accounting volatility elements depending on the evolution of the market parameters which directly impact the value of certain elements (derivatives valued on the base of an OIS curve, CBS, calculation of the Credit Value Adjustment, Debit Value Adjustment and Funding Value Adjustment). In 2017, this amount represented EUR +54 million.

In 2018, a charge of EUR -73 million was booked for the Funding Value Adjustment (EUR +40 million in 2017), which represents the funding cost related to non-collateralised derivatives. This negative impact is related to an adjustment in the calculation methodology used by Dexia Crédit Local as well as an increase in the funding cost for the banking sector in the 4th quarter. The Credit Value Adjustment, adjustment to the value of derivatives related to the counterparty risk, was also negative at EUR -35 million (EUR +119 million in 2017) due to a widening of credit spreads, particularly on bank counterparties. The Debit Value Adjustement, adjustment for own credit risk of the value of derivatives amounted to EUR +5 million (EUR -32 million in 2017).

Variation in market parameters during the year also had a negative impact on hedging inefficiencies. In particular, the valuation of derivatives was marked by the unfavorable evolution of the BOR/OIS spreads in pound sterling.

Net gains and losses on financial instruments measured at fair value through other comprehensive income amounted to EUR +11 million, following the disposals in line with the proactive strategy of reducing the balance sheet. As at 31 December 2017, the *Net gains (losses) on financial assets available for sale was* EUR -60 million.

Net gains and losses arising on derecognition of financial assets measured at amortised cost, at EUR -14 million included both EUR -6 million as result on anticipated reimbursements of financing or liabilities and EUR -8 million on assets disposals and anticipated reimbursement of debt instruments : Spanish projects were sold due to the worsening of their financial position and the concentration on some US local authorities was reduced.

The *net other results*, at EUR -4 million resulted from the net provision for litigations.

Costs amounted to EUR -365 million (EUR -372 million in 2017) and included an increase in taxes and regulatory contributions compare to the 2017 financial year.

In 2018, in total, regulatory taxes and contributions amounted to EUR -105 million, accounted for in *Operating expenses* for EUR -92 million (including an exceptional contribution from Dexia Crediop to the Italian national resolution fund for EUR -3 million) and for EUR -13 million in *Result from discontinued operations, net of tax*, for DKD's contribution. In 2017, those taxes and contributions amounted to EUR -89 million.

The *cost of credit risk* presented a positive amount of EUR +128 million (EUR +33 million in 2017).

This positive impact is mainly due to reversals of provisions following the sale of exposures related to the Commonwealth of Puerto Rico and the repayment of a receivable in Bulgaria, as well as the reversal of collective provisions on some exposures, in particular the Portuguese sovereign. Those positive effects were partially offset by the provisioning of the Chicago Board of Education exposure.

Dexia Crédit Local disposed of all its shares in Dexia Israel Bank for an amount of approximately EUR 81 million with a net positive result of about EUR +8 million in *Net gains or losses on other assets*.

In particular, a specific projects programme was launched by Dexia Crédit Local and Cognizant to achieve the objectives defined in the outsourcing agreement regarding IT systems security.

1.4 Other significant event of the year

The implementation of the outsourcing agreement signed in early October 2017 with Cognizant resulted in the transfer of IT services in November 2017 and credit and market back offices in May 2018. This partnership with Cognizant marks an important step in securing Dexia Crédit Local's operating model.

During the phase of implementing the outsourcing agreement with the service provider Cognizant, outsourcing risks were monitored by the Dexia Risk Management to ensure the proper implementation of operations and risk governance via joint Dexia Crédit Local / Cognizant committees. A specific team was created to check the provision and quality of the services provided by Cognizant, whilst the effective supervision of outsourced activities was realised by the Internal Control of the Dexia Crédit Local and Cognizant entities.

1.5. Post-balance-sheet events

Notification to the European Commission of the renewal of the States Guarantee to Dexia and to Dexia Crédit Local

Dexia Crédit Local was informed in February 2019[1] that the Belgian and French States had notified the European Commission of the renewal, beyond 31 December 2021, of the funding guarantee from which Dexia Crédit Local benefits. On the basis of the draft notification, the commission which would be payable by Dexia Crédit Local to the States on its liquidation as remuneration for the guarantee may absorb any net liquidation proceeds of Dexia Crédit Local, as a result of which the holders of hybrid Tier 1 debt of Dexia Crédit Local, would not receive any proceeds.

(1) Cf. Press Release issued by Dexia on 26 February 2019, available at www.dexia.com

1.6. Presentation of the effect of the standard IFRS 9 on the balance as at 1st january 2018

Impact on impairments and provisions

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

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

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

(in million EUR)	As at 31/12/2017 IAS 39/IAS 37		Reclassification	Remeasurement following expected credit losses	As at 01/01/2018 IFRS 9				
	Specific impairment	Collective impairment			Stage 1	Stage 2	Stage 3	POCI (1)	Total
Allowances on financial assets	**257**	**327**	**0**	**165**	**10**	**496**	**231**	**13**	**750**
Financial assets at amortised cost									
Interbank loans and advances		18		(16)	0	2	0	0	2
Customer loans and advances	256	309	(199)	(34)	2	153	164	13	332
Debt securities			178	226	5	334	64	0	403
Other assets	1			0	0	0	1	0	1
Financial assets at fair value through OCI			22	(10)	3	8	1	0	12
Provisions on commitments and financial guarantees given	**1**			**12**	**0**	**7**	**6**	**0**	**13**

(1) Purchased or Originated Credit Impaired debt instruments

IMPACT ON THE BALANCE-SHEET

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

The implementation of the classification under IFRS 9 is described in the accounting policies and valuation methods for the consolidated accounts (note 1 § 1.1.6.2.1).

The consolidated financial statements of the Dexia Crédit Local group are presented as described by the French ANC (Autorité des Normes Comptables, Authority for accounting standards).

Dexia Crédit Local applies the recommendation n° 2017-02 dated 2 june 2017.

ASSETS (in million EUR)	31/12/2017 IAS 39	Modification of accounting category						Carrying amount after reclassification
		Modification in ANC presentation (A)	Financial assets available for sale (B)	Financial assets held to maturity (B)	Non-SPPI financial assets (C)	Business model modification (D)	Other (E)	
Cash and central banks	10,721							10,721
Financial assets at fair value through profit or loss	13,188		149		4,848	(985)	7	17,207
Hedging derivatives	4,985						(7)	4,977
Financial assets available for sale	10,830		(10,830)					
Financial assets at fair value through other comprehensive income			39			11,433	139	11,611
Financial assets at amortised cost - Debt securities		42,655	10,642	1,750	(659)	(7,334)	0	47,055
Interbank loans and advances	5,995	(5,995)						
Financial assets at amortised cost - Interbank loans and advances		30,630						30,630
Customer loans and advances	98,914	(98,914)						
Financial assets at amortised cost - Customer loans and advances		61,612			(4,189)	(3,114)		54,309
Fair value revaluation of portfolio hedges	1,314						(139)	1,175
Financial assets held to maturity	1,750			(1,750)				
Current tax assets	18							18
Deferred tax assets	29							29
Accruals and other assets	30,547	(29,989)						558
Non current assets held for sale	2,105							2,105
Tangible fixed assets	4							4
Intangible assets	34							34
TOTAL ASSETS	**180,434**	**0**	**0**	**0**	**0**	**0**	**0**	**180,434**

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

Some modifications were brought to the presentation in the face of the balance sheet following the ANC recommendation n° 2017-02 dated 2 june 2017.

As at 31/12/2017, cash collaterals were included in the item *Accruals and other assets* (EUR 29,989 million). As at 01/01/2018, following the format proposed by the ANC, they are included in item *Financial assets at amortised cost - Interbank loans and advances* (EUR 26,431 million) and in item *Financial assets at amortised cost - Customer loans and advances* (EUR 3,557 million); Moreover, debt securities included as at 31//12/2017 in the items *Interbank loans and advances* (EUR 1,796 million) and *Customer loans and advances* (EUR 40,859 million) are now accounted for in the new item *Financial assets at amortised cost - Debt securities* (EUR 42,655 million).

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

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

(C) Non-SPPI financial assets

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

(D) Business model modification

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

(E) Others

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

ASSETS (in EUR million)	**Carrying amounts after reclassification**	**Value adjustments**			**01/01/2018 IFRS 9**
		Due to expected credit losses (A)	**Other (B)**	**Deferred tax impact**	
Cash and central banks	10,721				10,721
Financial assets at fair value through profit or loss	17,207	28	(223)		17,012
Hedging derivatives	4,977				4,977
Financial assets at fair value through other comprehensive income	11,611	10	14		11,635
Financial assets at amortised cost - Debt securities	47,055	(226)	3,014		49,844
Financial assets at amortised cost - Interbank loans and advances	30,630	15			30,645
Financial assets at amortised cost - Customer loans and advances	54,309	7			54,316
Fair value revaluation of portfolio hedges	1,175				1,175
Current tax assets	18				18
Deferred tax assets	29				29
Accruals and other assets	558				558
Non current assets held for sale	2,105	(5)		2	2,102
Tangible fixed assets	4				4
Intangible assets	34				34
TOTAL ASSETS	**180,434**	**(171)**	**2,805**	**2**	**183,070**

(A) Value adjustments due to expected credit losses

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

(B) Other

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

LIABILITIES (in EUR million)	31/12/2017 IAS 39	Modifications of accounting category			Value adjustment			01/01/2018 IFRS 9
		Modification in ANC presentation (A)	Other (B)	Carrying amount after reclassifica-tions	Due to expected credit losses (C)	Other (D)	Deferred tax impact (E)	
Financial liabilities at fair value through profit or loss	14,192		719	14,911				14,911
Hedging derivatives	27,858		(719)	27,139				27,139
Interbank borrowings and deposits	31,760	(209)		31,550				31,550
Customer borrowings and deposits	6,426	3,733		10,159				10,159
Debt securities	89,654			89,654				89,654
Fair value revaluation of portfolio hedges	41		0	41				41
Current tax liabilities	1			1				1
Deferred tax liabilities	23			23				23
Accruals and other liabilities	3,931	(3,524)		407				407
Liabilities included in disposal groups held for sale	1,894			1,894				1,894
Provisions	222			222	12			234
Subordinated debt	160			160				160
TOTAL LIABILITIES	**176,162**	**0**	**0**	**176,162**	**12**		**0**	**176,173**
Equity	**4,272**			**4,272**	**(183)**	**2,805**	**2**	**6,897**
Equity, Group share	3,918			3,918				6,521
Capital stock and related reserves	2,465			2,465				2,465
Consolidated reserves	5,649		(241)	5,408	(182)	(232)	22	5,016
Gains and losses directly recognised in equity	(3,955)			(3,955)		3,015	(21)	(960)
Net result of the period	(241)		241	0				
Minority interests	354			354	(1)	22	1	376
TOTAL LIABILITIES AND EQUITY	**180,434**	**0**	**0**	**180,434**	**(171)**	**2,805**	**2**	**183,070**

TOTAL LIABILITIES

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

Some modifications were brought to the presentation in the face of the balance sheet following the ANC recommendation n° 2017-02 dated 2 june 2017.

As at 31/12/2017, cash collaterals were included in item *Accruals and other liabilities* (EUR 3,524 million). As at 01/01/2018, following the format proposed the ANC, they were reclassified in item *Interbank borrowings and deposits* (EUR 3,160 million) and in item *Customer borrowings and deposits* (EUR 364 million).

(B) Other

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

(C) Value adjustments due to expected credit losses

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

EQUITY

(C) Value adjustments due to expected credit losses

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

(D) Other

Modifications in accounting classification have an impact of EUR -278 million on *Consolidated reserves*, of EUR +705 million in *Gains and losses directly recognised in equity* and of EUR +8 million in *Minority interests*.

In particular, the classification of equity instruments in *Financial assets at fair value through profit or loss* (EUR 149 million) and in *Financial assets at fair value through other comprehensive income* (EUR 39 million) has a positive impact of EUR +23 million in *Consolidated reserves* and a negative impact of EUR -23 million in *Gains and losses directly recognised in equity*.

The release of the premium-discount related to previous reclassification to *Loans and advances* under IAS 39 revised and of *Financial assets available for sale* to *Financial assets held to maturity* had an impact of EUR 63 million on *Consolidated reserves*, of EUR 2,293 million on *Gains and losses directly recognised in equity* and of EUR 14 million in *Minority interests*.

(E) Impact on deferred tax

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

FINANCIAL ASSETS RECLASSIFIED AT AMORTISED COST

	Carrying amount as at 31/12/2018	Fair value as at 31/12/2018	Fair value gain or loss 2018
From *Financial assets available for sale*[1]	7,429	6,257	(289)
From *Financial assets at fair value through profit or loss*	578	665	(4)

(1) of which discontinued operations: carrying amount: EUR 313 million, fair value EUR 316 million.

	Interests revenue (expense) 2018
From *Financial assets at fair value through profit or loss*	8

The effective interest rate of *Financial assets at fair value through profit or loss* reclassified at amortised cost in between 2.6% and 2.9%.

2. Notes on the assets

(some amounts may not add up due to roundings off)

2.1. Cash and cash equivalents

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

a. Analysis by nature

(in EUR million)	31/12/2017	31/12/2018
Cash and central banks (note 2.2)	10,721	9,269
Interbank loans and advances (note 2.6)	399	
Financial assets at amortised cost - Interbank loans and advances (note 2.6)		1,242
Non current assets held for sale	712	102
TOTAL	**11,832**	**10,614**

b. Of which, restricted cash:

(in EUR million)	31/12/2017	31/12/2018
Mandatory reserves(1)	61	128
- of continuing operations		*30*
- of discontinued operations		*98*
TOTAL	**61**	**128**

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

2.2. Cash and central banks

(in EUR million)	31/12/2017	31/12/2018
Mandatory reserve deposits with central banks	61	30
Other central banks deposits(1)	10,659	9,239
TOTAL	**10,721**	**9,269**
of which included in cash and cash equivalents	*10,721*	*9,269*

(1) On 21 July 2017, the European Central Bank announced the end of recourse to Eurosystem funding for wind-down entities as from 31 December 2021 and limited the Group's recourse to the Eurosystem to an amount of EUR 5.2 billion for the transitional period. As at 31 December 2017, the Group no longer had recourse to that type of funding.
The ECB decision also resulted in a reduction of the liquidity buffer, combined with a change of its composition. As of December 31, 2017, the liquidity reserve is EUR 16.4 billion of which EUR 10.7 billion in the form of deposits with central banks. As of December 31, 2018, the liquidity reserve is EUR 16.3 billion of which EUR 9.3 billion in the form of deposits with central banks.

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2.3. Financial assets at fair value through profit or loss

(in EUR million)	31/12/2017	31/12/2018
Loans and securities	679	3,262
Derivatives (see note 4.1.b)	12,509	10,158
TOTAL	**13,188**	**13,420**

a. Analysis by nature of loans and securities at fair value through profit and loss

	31/12/2017			31/12/2018			
(in EUR million)	Held for trading	Designated at fair value through P/L	Total	Held for trading	Non-trading financial assets mandatorily at fair value through P/L	Designated at fair value through P/L	Total
Loans	0	0	0		2,894	0	2,894
Bonds	679	0	679		252	0	252
Equity instruments	0	0	0		116		116
TOTAL	**679**	**0**	**679**	**0**	**3,262**	**0**	**3,262**

b. Analysis by maturity and interest rate: see notes 7.6 and 7.4.

c. Analysis of the fair value: see note 7.1.

2.4. Financial assets available for sale / Financial assets at fair value through OCI

FINANCIAL ASSETS AVAILABLE FOR SALE

a. Analysis by nature

(in EUR million)	31/12/2017
Bonds issued by public bodies	6,227
Other bonds and fixed-income instruments	4,415
Equities and other variable-income instruments	229
TOTAL ASSETS BEFORE IMPAIRMENT	**10,871**
Specific impairment	(42)
TOTAL ASSETS AFTER IMPAIRMENT	**10,830**

FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

a. Analysis by nature

(in EUR million)	31/12/2018
Loans	739
Bonds	4,089
Equity instruments designated at FVOCI	39
TOTAL ASSETS BEFORE ALLOWANCES	**4,866**
ALLOWANCES	(6)
TOTAL ASSETS AFTER ALLOWANCES	**4,860**

b. Derecognition of investments in equity instruments.
No significant disposal took place in 2018.

c. Equity instruments were designated as at FVOCI in order to avoid volatility in net income.
55 investments were designated, of which lots of them have a not material accounting value.
The following investments have an accounting value of 1 million or more:

(in EUR million)	31/12/2018
Ecofin global utilities	5
Istituto per il Credito Sportivo	28

d. Analysis by maturity and interest rate: see notes 7.6 et 7.4.

e. Analysis of fair value: see note 7.1.

f. Analysis of quality: see note 2.12.

g. Reclassification of financial assets: see note 2.13 A.

2.5. Financial assets held to maturity / Financial assets at amortised cost - Debt securities

FINANCIAL ASSETS HELD TO MATURITY

a. Analysis by counterparty

(in EUR million)	31/12/2017
Public sector	1,750
Performing assets	**1,750**
Impaired assets	**0**
TOTAL ASSETS BEFORE IMPAIRMENT	**1,750**
TOTAL ASSETS AFTER IMPAIRMENT	**1,750**

FINANCIAL ASSETS AT AMORTISED COST - DEBT SECURITIES

a. Analysis by counterparty

(in EUR million)	31/12/2018
Interbank	1,593
Customers	43,873
TOTAL ASSETS BEFORE ALLOWANCES	**45,466**
ALLOWANCES	(338)
TOTAL ASSETS AFTER ALLOWANCES	**45,128**

b. Analysis by maturity and interest rate: see notes 7.6 and 7.4.

c. Analysis of fair value: see note 7.1.

d. Analysis of quality: see note 2.12.

e. Impact analysis on transfer of financial assets from available for sale to held to maturity: see note 2.13.B

2.6. Interbank loans and advances / Financial assets at amortised cost - Interbank loans and advances

INTERBANK LOANS AND ADVANCES

a. Analysis by nature

(in EUR million)	31/12/2017
Nostri accounts	307
Reverse repurchase agreements (reverse repos)	2,980
Other interbank loans and advances	929
Debt instruments	1,798
Performing assets	**6,014**
Impaired assets	**0**
TOTAL ASSETS BEFORE IMPAIRMENT	**6,014**
Collective impairment	(18)
TOTAL ASSETS AFTER IMPAIRMENT	**5,995**
of which included in cash and cash equivalents	*399*

FINANCIAL ASSETS AT AMORTISED COST - INTERBANK LOANS AND ADVANCES

a. Analysis by nature

(in EUR million)	31/12/2018
Nostri accounts	488
Cash collateral	20,311
Reverse repurchase agreements (reverse repos)	2,575
Other interbank loans and advances	281
TOTAL ASSETS BEFORE ALLOWANCES	**23,655**
Allowances	(2)
TOTAL ASSETS AFTER ALLOWANCES	**23,654**
of which included in cash and cash equivalents	*1,242*

b. Analysis by maturity and interest rate: see notes 7.6 et 7.4.

c. Analysis of fair value: see note 7.1.

d. Analysis of quality: see note 2.12.

e. Reclassification of financial assets (IAS 39 amended): see note 2.13 A.

2.7. Customer loans and advances / Financial assets at amortised cost - Customer loans and advances

CUSTOMER LOANS AND ADVANCES

a. Analysis by nature

(in EUR million)	31/12/2017
Loans and advances	57,730
Debt instruments	40,873
Performing assets	**98,603**
Impaired loans and advances	693
Impaired debt instruments	183
Impaired assets	**876**
TOTAL ASSETS BEFORE IMPAIRMENT	**99,479**
Specific impairment	(256)
Collective impairment	(309)
TOTAL ASSETS	**98,914**
of which included in finance leases	*1,242*

FINANCIAL ASSETS AT AMORTISED COST - CUSTOMER LOANS AND ADVANCES

a. Analysis by nature

(in EUR million)	31/12/2018
Cash collateral[1]	4,850
Loans and advances	30,579
TOTAL ASSETS BEFORE ALLOWANCES	**35,428**
Allowances	(285)
TOTAL ASSETS AFTER ALLOWANCES	**35,143**
of which included in finance leases	*1,116*

(1) of which EUR 3,006 million related to clearing houses.

b. Analysis by maturity and interest rate
see notes 7.6 and 7.4.

c. Analysis of fair value
see note 7.1.

d. Analysis of quality
see note 2.12.

2.8. Accruals and other assets

(in EUR million)	31/12/2017	31/12/2018
Other assets	558	388
Cash collateral[1]	29,989	
TOTAL	30,547	388

(1) As at 31/12/2018, the cash collateral is included in Financial assets at amortised cost - Interbank loans and advances and Financial assets at amortised cost - Customer loans and advances

Other assets

Analysis by nature (in EUR million)	31/12/2017
Deferred expense	5
Other accounts receivable	550
Other taxes	3
Performing assets	**558**
Impaired assets	**1**
TOTAL ASSETS BEFORE IMPAIRMENT	**559**
Specific impairment	(1)
TOTAL ASSETS AFTER IMPAIRMENT	**558**

Analysis by nature (in EUR million)	31/12/2018
Deferred expense	4
Other accounts receivable	380
Other taxes	5
TOTAL	**388**

2.9. Tangible fixed assets

a. Net book value

	Land and buildings	Office furniture and other equipment	Total
(in EUR million)	Own use owner	Own use owner	
Acquisition cost as at 1 January 2017	**19**	**49**	**68**
- Acquisitions	0	1	1
- Disposals	0	(3)	(3)
- Transfers and cancellations	(5)	(10)	(15)
- Translation adjustments	0	(2)	(2)
Acquisition cost as at 31 December 2017 (A)	**14**	**35**	**49**
Accumulated depreciation and impairment as at 1 January 2017	**(13)**	**(41)**	**(53)**
- Depreciation booked	0	(2)	(2)
- Disposals	0	1	1
- Transfers and cancellations	1	8	9
- Translation adjustments	0	2	2
Accumulated depreciation and impairment as at 31 December 2017 (B)	**(12)**	**(32)**	**(43)**
Net book value as at 31 December 2017 (A)+(B)	**2**	**3**	**4**

	Land and buildings	Office furniture and other equipment	Total
(in EUR million)	Own use owner	Own use owner	
Acquisition cost as at 1 January 2018	**14**	**35**	**49**
- Transfer in disposal groups held for sale	(12)	(3)	(15)
- Disposals	(2)	0	(2)
- Translation adjustments	0	1	1
Acquisition cost as at 31 December 2018 (A)	**0**	**34**	**34**
Accumulated depreciation and impairment as at 1 January 2018	**(12)**	**(32)**	**(43)**
- Transfer in disposal groups held for sale	10	3	13
- Depreciation booked	0	(1)	(1)
- Disposals	2	0	2
- Translation adjustments	0	(1)	(1)
Accumulated depreciation and impairment as at 31 December 2018 (B)	**0**	**(32)**	**(32)**
Net book value as at 31 December 2018 (A)+(B)	**0**	**2**	**2**

b. Fair value of investment property

Nil.

c. Capitalised expenditures for the construction of tangible fixed assets

Nil.

d. Contractual obligations relating to investment property at the end of the period

Nil.

e. Contractual obligations relating to property, plant and equipment at the end of the period

Nil.

2.10. Intangible assets

	2017			2018		
(in EUR million)	Internally developed software	Other intangible assets[1]	Total	Internally developed software	Other intangible assets[1]	Total
Acquisition cost as at 1st January	**104**	**112**	**216**	**114**	**108**	**222**
- Transfers in disposal groups held for sale	0	0	0	0	(23)	(23)
- Acquisitions	11	3	14	8	11	19
- Disposals	0	(2)	(2)	0	0	0
- Transfers and cancellations	(1)	(2)	(3)	(3)	0	(3)
- Translation adjustments	0	(3)	(3)	0	1	1
Acquisition cost as at 31 December (A)	**114**	**108**	**222**	**119**	**97**	**216**
Accumulated depreciation and impairment as at 1st January	**(81)**	**(103)**	**(184)**	**(87)**	**(101)**	**(188)**
- Transfers in disposal groups held for sale	0	0	0	0	23	23
- Booked	(7)	(4)	(11)	(12)	(4)	(16)
- Disposals	0	2	2	0	0	0
- Transfers and cancellations	1	2	3	3	0	3
- Translation adjustments	0	2	2	0	(1)	(1)
Accumulated depreciation and impairment as at 31 December (B)	**(87)**	**(101)**	**(188)**	**(96)**	**(83)**	**(179)**
Net book value as at 31 December (A)+(B)	**27**	**7**	**34**	**23**	**14**	**37**

(1) Other intangible assets include primarily purchased software.

2.11. Leases

a. Group as lessor

Finance leases

Gross investment in finance leases (in EUR million)	31/12/2017	31/12/2018 - continuing operations
Less than 1 year	136	46
1 year to 5 years	320	147
Over 5 years	784	928
Subtotal	**1,240**	**1,121**
Net investment in finance leases	**1,240**	**1,121**

Additional information (in EUR million)	31/12/2017	31/12/2018 - continuing operations
Estimated fair value of finance leases	1,236	1,097

Operating leases

These amounts are non-material.

b. Group as lessee

Finance leases

Nil.

Operating leases

Future net minimum lease payments under non-cancelable operating leases (in EUR million)	31/12/2017	31/12/2018 - continuing operations
Less than 1 year	18	17
1 year to 5 years	54	49
TOTAL	**72**	**67**
Future minimum sublease payments expected to be received under non-cancelable subleases at the balance sheet date	1	1

Lease and sublease payments recognized as expenses during the year (in EUR million)	31/12/2017	31/12/2018 - continuing operations
- Minimum lease payments	18	15
- Sublease payments	(1)	0
TOTAL	**17**	**15**

2.12. Quality of financial assets

(in EUR million)	31/12/2017
Analysis of performing financial assets	
Interbank loans and advances	6,014
Customer loans and advances	98,603
Financial assets held to maturity	1,750
Financial assets available for sale	10,795
Fixed revenue instruments	*10,642*
Variable revenue instruments	*152*
Other accounts receivable (note 2.8)	550
TOTAL PERFORMING FINANCIAL ASSETS	**117,712**
Collective impairment	(327)
NET TOTAL PERFORMING FINANCIAL ASSETS	**117,385**

	31/12/2017		
(in EUR million)	Gross amount	Specific Impairment	Net amount
Analysis of impaired financial assets			
Customer loans and advances	876	(256)	620
Financial assets available for sale	77	(42)	35
Variable revenue instruments	*77*	*(42)*	*35*
Other accounts receivable (note 2.8)	1	(1)	0
TOTAL	**954**	**(299)**	**655**
Analysis of performing and impaired financial assets			
Interbank loans and advances	6,014	0	6,014
Customer loans and advances	99,479	(256)	99,223
Financial assets held to maturity	1,750	0	1,750
Financial assets available for sale	10,871	(42)	10,830
Fixed revenue instruments	*10,642*	*0*	*10,642*
Variable revenue instruments	*229*	*(42)*	*188*
Other accounts receivable (note 2.8)	551	(1)	550
TOTAL FINANCIAL ASSETS	**118,665**	**(299)**	**118,367**
Collective impairment			(327)
NET TOTAL	**118,665**	**(299)**	**118,040**

(in EUR million)	31/12/2018 Gross amount - Stage 1	Gross amount - Stage 2	12-month expected credit losses	Lifetime expected credit losses	Net amount - Stage 1	Net amount - Stage 2
Non credit-impaired financial assets						
Financial assets at amortised cost - Debt securities	33,173	11,838	(3)	(242)	33,170	11,597
Financial assets at amortised cost - Interbank loans and advances	23,457	199		(2)	23,457	197
Financial assets at amortised cost - Customer loans and advances	27,700	6,917	(2)	(90)	27,698	6,827
Financial assets at fair value through OCI - Fixed revenue intruments	3,823	999	(1)	(4)	3,822	995
Other accounts receivable	64	1	0	0	64	1
TOTAL	**88,216**	**19,954**	**(5)**	(337)	88,210	19,617

(in EUR million)	31/12/2018 Gross amount	Specific Impairment	Net amount
Credit-impaired financial assets (stage 3)			
Financial assets at amortised cost - Debt securities	455	(93)	362
Financial assets at amortised cost - Customer loans and advances	742	(186)	556
Financial assets at fair value through OCI - fixed revenue intruments	5	(1)	4
Other accounts receivable	10	(10)	0
TOTAL	**1,213**	**(291)**	**922**

(in EUR million)	31/12/2018 Gross amount	Specific Impairment	Net amount
Purchased or originated credit impaired			
Financial assets at amortised cost - Customer loans and advances	69	(7)	62
TOTAL	**69**	**(7)**	**62**

	31/12/2018 Gross amount	12-month expected credit losses	Lifetime expected credit losses	Specific Impairment	Net amount
Financial assets at amortised cost - Debt securities	45,466	(3)	(242)	(93)	45,128
Financial assets at amortised cost - Interbank loans and advances	23,655		(2)		23,654
Financial assets at amortised cost - Customer loans and advances	35,428	(2)	(90)	(193)	35,143
Financial assets at fair value through OCI -fixed revenue intruments	4,827	(1)	(4)	(1)	4,821
Other accounts receivable	75			(10)	65
TOTAL	**109,452**	**(5)**	**(337)**	**(298)**	**108,811**

Financial instruments for which there are no loss allowances recorded correspond to positions that are either guaranteed or senior, or marginally for which the bank has physical collateral.

2.13. Reclassification of financial assets (IAS 39 amended) and transfers of financial assets available for sale to financial assets held to maturity

A. Reclassification of financial assets (IAS 39 amended)

On 1 October 2008, the Dexia Group decided to apply the amendment of IAS 39 and IFRS 7 "Reclassification of Financial Assets" for some assets, and opted to reclassify certain assets from "Financial assets held for trading" to "Financial assets available for sale" or "Loans and advances", as well as from "Financial assets available for sale" to "Loans and advances".
On 1 October 2014, the Dexia Group also reclassified bonds from "Financial assets available for sale" to "Loans and advances".

(in EUR million)	Carrying amount of assets reclassified, at the reclassification date	Carrying amount of reclassified assets at 31 December 2017	Fair value of reclassified assets at 31 December 2017	Amount not taken through profit or loss due to reclassification	Amount not taken through AFS Reserve due to reclassification	Premium/ Discount amortisation through net income	Premium/ Discount amortisation through AFS reserve
	31/12/2017						
From "Financial assets held for trading" to "Loans and advances"	3,565	458	440	(18)		2	
From "Financial assets available for sale" to "Loans and advances"	50,120	35,122	31,858		(3,264)		166

IMPACT OF THE RECLASSIFICATION ON EQUITY AND RESULT

a. Transfer from "Financial assets held for trading" to "Loans and advances"

The difference between the carrying amount at the reclassification date and the reimbursement amount is amortised over the remaining life of the reclassified asset. The impact of this amortisation on net income for the period is disclosed in the column "Premium/discount amortisation through profit or loss".

At closing date, the difference between the carrying amount of reclassified assets and their fair value represents the cumulative changes in fair value from reclassification date until the closing date. It also includes the cumulative amortisation of the premium or discount since reclassification. In 2017, the difference is negative as spreads have increased.

b. Transfer from "Financial assets available for sale" to "Loans and advances"

The Dexia Crédit Local Group's available-for-sale portfolio is very specific as it consists of securities with very long maturities, resulting in significant changes in value following small shifts in spreads. The impact of the transfer on the cost of risk consists in the net amount of accruals and use of collective as well as specific provisions.

In 2017, a EUR 35 million income was recorded as collective impairment.

When there is objective evidence of impairment for a financial asset initially classified in "Financial assets available for sale" but reclassified in "Loans and advances" in accordance with the amended IAS 39, any difference between the carrying amount and the net present value of expected future cash flows, discounted at the effective interest rate as at the reclassification date is recognised as an impairment loss. Consequently, any unamortised outstanding amount recognised in the available-for-sale reserve is also recognised as an impairment loss. This category mainly includes non-economic losses that would have been reversed in the future through net interest income.

The difference between the carrying amount of a reclassified asset and its fair value reflects the evolution of credit and liquidity spreads on the markets.

c. Impact of reclassifications on the interest margin

For assets transferred from "Financial assets available for sale" to "Loans and advances" the amortisation of the premium/discount on the asset is offset by the amortisation of the fair value reserve frozen at the time of reclassification, without any resulting impact on net interest income.

The impact on the interest margin due to reclassification of "Financial assets held for trading" to "Loans and advances" amounts to EUR 2 million in 2017.

B. Transfers of financial assets available for sale to financial assets held to maturity

Begin December 2016, the Group transferred certain sovereign bonds from the category "Financial assets available for sale" to the category "Financial assets held to maturity", for which it had a clear change of intent and ability to hold them until their maturity. The reclassifications were made at the fair value of the assets at the reclasification date. The effective interest rate at reclassification date ranged from 1.4% to 8.0%.

The reimbursement amount of those assets reclassified amounted to EUR 1.5 billion. As of 31 December 2017, if those financial assets had not been reclassified, a positive amount of EUR 174 million would have been recognised for those assets, in shareholders'equity, in "Gains and losses directly recognised in equity".

An EUR 577 million gross amount of available for sale reserve was frozen and will be amortised on the residual maturity of the assets, without any impact in profit and loss. Indeed, the amortisation of the of the premium/discount on the asset is offset by the symetrical amortisation of the fair value reserve frozen at the time of reclassification. As at 31 December 2017, this amortisation amounted to EUR 29 million.

(in EUR million)	31/12/2017 Carrying amount of assets transferred, at the reclassification date	Carrying amount of transferred assets at 31 December 2017	Fair value of transferred assets at 31 December 2017	Amount not taken through AFS reserve due to transfer	Amortisation of premium/discount in gains and losses directly recognised in equity
	1,696	1,685	1,859	174	29

2.14. Transfer of financial assets

The Group enters into transactions as repurchase agreements, securities lending agreements or total return swaps, in which the Group transfers financial assets, mainly loans and advances or debt securities, but retains substantially all of the risks and rewards.
Due to this retention, the transferred financial assets are not derecognised and the transfers are accounted for as secured financing transactions.

	31/12/2017	
(in EUR million)	Carrying amount of assets	Carrying amount of associated liabilities
Loans and advances not derecognised due to following transactions:		
Repurchase agreements	18,422	16,349
TOTAL	**18,422**	**16,349**
Financial assets available for sale not derecognised due to following transactions:		
Repurchase agreements	9,792	9,355
TOTAL	9,792	9,355
TOTAL	**28,214**	**25,704**

Continuing operations

	31/12/2018	
(in EUR million)	Carrying amount of assets	Carrying amount of associated liabilities
Financial assets at amortised cost - Debt securities not derecognised due to following transactions:		
Repurchase agreements	16,523	14,399
TOTAL	**16,523**	**14,399**
Financial assets at fair value through OCI not derecognised due to following transactions:		
Repurchase agreements	643	574
TOTAL	**643**	**574**
Non-trading financial assets mandatorily at fair value through P/L not derecognised due to following transactions:		
Repurchase agreements	65	48
TOTAL	65	48
TOTAL	**17,231**	**15,021**

3. Notes on the liabilities

(some amounts may not add up due to roundings off)

3.1. Financial liabilities at fair value through profit or loss

(in EUR million)	31/12/2017	31/12/2018
Liabilities designated at fair value	1,410	1,065
Derivatives (see note 4.1)	12,782	10,807
TOTAL	**14,192**	**11,872**

a. Analysis by nature of liabilities held for trading

Nil

b. Analysis by nature of liabilities designated at fair value

(in EUR million)	31/12/2017	31/12/2018
Non subordinated liabillities	1,410	1,065
TOTAL	**1,410**	**1,065**

c. Credit risk on financial liabilities designated at fair value through profit or loss

	Carrying amount	Amount of change in the fair value attributable to changes in the credit risk		Difference between carrying amount and amount contractually required to be paid at maturity(1)
(in EUR million)		For the period	Cumulative	
As at 31 December 2017	1,410	92	(81)	321
As at 31 December 2018	1,065	28	(53)	212

(1) This amount includes the premium/discount and change in market value.

d. Analysis by maturity and interest rate: see note 7.4 and 7.6

e. Analysis of fair value: see note 7.1.

The "Fair Value Option" (FVO), for financial liabilities is mainly used in the following situation:

By Dexia Financial Products Inc and FSA Global Funding Ltd for liabilities where the hedge accounting requirements are not met or there is a risk that they will not be met, the FVO is used as an alternative in order to reduce volatility in profit or loss.

The following types of liabilities are subject to the FVO classification:

a) Fixed rate liabilities that are highly customised funding contracts tailored to the specific needs of the investor (GIC activities).

Regarding collateralised liabilities by assets, the DVA spread is the average of spreads of collateral given as guarantee. Regarding non secured liabilities, they benefit from both Dexia and Assurer monoliner guarantee. In this case, the own credit spread (DVA) is the lower of Dexia DVA spread and the Assured Guaranty spread.

b) FSA Global Funding fixed rate liabilities and the unsecured FP GICs.

The own credit spread is Dexia's DVA spread.

As at 31 December 2018, the cumulative change in fair value attributable to the own credit risk of financial liabilities designated at fair value amounted to EUR -53 million. This amount is booked in *Gains and losses directly recognised in equity*.

3.2. Interbank borrowings and deposits

a. Analysis by nature

(in EUR million)	31/12/2017	31/12/2018
Demand deposits	88	0
Repurchase agreements	24,682	13,568
Cash collateral(1)	0	2,333
Other debts	6,990	5,028
TOTAL	**31,760**	**20,930**

(1) In 2017 cash collaterals were included in the item Accruals and other liabilities

b. Analysis by maturity and interest rate: see note 7.4 and 7.6

c. Analysis of fair value: see note 7.1

3.3. Customer borrowings and deposits

a. Analysis by nature

(in EUR million)	31/12/2017	31/12/2018
Demand deposits	795	0
Term deposits	1,208	296
Total customer deposits	**2,003**	**296**
Repurchase agreements(1)	3,781	4,323
Cash collaterals(2)	0	85
Other borrowings	642	168
Total customer borrowings	**4,423**	**4,577**
TOTAL	**6,426**	**4,873**

(1) in 2018 EUR 3,753 millions related to EUREX CLEARING AG.
(2) In 2017 cash collaterals were included in the item Accruals and other liabilities

b. Analysis by maturity and interest rate: see note 7.4 and 7.6.

c. Analysis of fair value: see note 7.1.

3.4. Debt securities

a. Analysis by nature

(in EUR million)	31/12/2017	31/12/2018
Certificates of deposit	10,085	3,144
Non-convertible bonds(1)	79,569	64,815
TOTAL(2)	**89,654**	**67,959**

(1) As at 31 December 2017, the amount of covered bonds was EUR 15.4 billion. As at 31 December 2018, following the application of IFRS 5, the covered bonds are included in Liabilities included in disposal groups held for sale.
(2) As at 31 December 2018, the total amount issued with the State guarantee was EUR 65.5 billion (EUR 67.6 milliard in 2017).

b. Analysis by maturity and interest rate: see note 7.4 and 7.6.

c. Analysis of fair value: see note 7.1.

3.5. Accruals and other liabilities

(in EUR million)	31/12/2017	31/12/2018
Other liabilities	407	400
Cash collateral(1)	3,524	0
TOTAL	**3,931**	**400**

(1) As at 31 december 2018, cash collateral is included in the item Interbank borrowings and deposits *and in* Customer borrowings and deposits.

Other liabilities

(in EUR million)	31/12/2017	31/12/2018
Accrued costs	42	21
Deferred income	10	9
Grants	58	36
Salaries and social charges (payable)	6	5
Other taxes	18	15
Other accounts payable and other liabilities	273	314
TOTAL	**407**	**400**

3.6. Provisions

a. Analysis by nature

(in EUR million)	31/12/2017
Litigation claims[1]	194
Restructuring	17
Defined benefit plans	4
Other long-term employee benefits	4
Provision for off-balance sheet credit commitments	1
Onerous contracts	1
TOTAL	**222**

(1) This item includes a provision related to desensitisation of structured credits in France.

(in EUR million)	31/12/2018
Litigation claims[1]	196
Restructuring	12
Defined benefit plans	1
Other long-term employee benefits	3
Commitments and guarantees given[2]	9
Commitments and guarantees given - stage 1	*0*
Commitments and guarantees given - stage 2	*2*
Commitments and guarantees given - stage 3	*6*
Onerous contracts	4
Other provisions	2
TOTAL	**226**

(1) This item includes a provision related to desensitisation of structured credits in France
(2) The evolution of this item is presented in the note 7.2.e

b. Movements

(in EUR million)	Litigation claims[1]	Restructuring	Pensions and other employee benefits	Provision for off-balance sheet credit commitments	Onerous contracts	Total
AS AT 1 JANUARY 2017	**237**	**5**	**15**	**4**	**2**	**264**
Additions	4	18	3			25
Unused amounts reversed	(47)	(4)	(3)	(3)		(57)
Amounts utilised during the year		(2)	(1)		(1)	(4)
Actuarial gains and losses			(3)			(3)
Transfers in liabilities included in disposal groups held for sale			(1)			(1)
Other transfers			(2)			(2)
AS AT 31 DECEMBER 2017	**194**	**17**	**8**	**1**	**1**	**222**

(1) We refer to the section Litigation in the chapter Risk Management of the Management Report.

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(in EUR million)	Litigation claims[(1)]	Restructuring	Pensions and other employee benefits	Onerous contracts	Other provisions	Total
AS AT 1 JANUARY 2018	194	17	8	1	0	221
Additions	23	6	2	3	3	37
Unused amounts reversed	(7)	(10)	(6)	0	0	(23)
Amounts utilised during the year	(1)	(1)	(1)	(1)	0	(4)
Actuarial gains and losses	0	0	(1)	0	0	(1)
Transfers in liabilities included in disposal groups held for sale	(7)	0	0	0	(1)	(8)
Other transfers	(6)	0	2	0	0	(4)
AS AT 31 DECEMBER 2018	196	12	4	4	2	218

(1) We refer to the section Litigation in the chapter Risk Management of the Management Report.

c. Provisions for pension and other long term benefits

After the sale of most of its operating subsidiaries, Dexia Crédit Local holds only several subsidiaries with significant staff number in a few countries. Except commitments for legal pension and for defined contribution plans, commitments for defined benefit plans are limited.
They mainly concern retirement allowances in France and pension plans in Italy.

Due to the downsizing of the group, the commitments decrease accordingly and the DBO (defined benefit obligation, long-term employee benefits and post-retirement obligations) represents less than 3% of consolidated equity. The amount of actuarial liabilities less the fair value of assets for retirement and other employee benefits is EUR 4 million as at 31 December 2018 and 8 million as at 31 December 2017.

3.7. Subordinated debt

a. Analysis by nature

Convertible subordinated debt
Nil

Non-convertible subordinated debts

(in EUR million)	31/12/2017	31/12/2018
Perpetual subordinated notes	0	0
Other subordinated notes	160	126
TOTAL	160	126

b. Reconciliation of liabilities arising from financing activities

(in EUR million)	01/01/17	Cash flows	Non-cash changes: Changes arising from obtaining or losing control of subsidiaries	Non-cash changes: Translation adjustment	Non-cash changes: Fair value changes	Non-cash changes: Other changes[(1)]	31/12/2017
	482	(282)		(4)	(1)	(35)	160

(1) of which EUR 38 million have been transferred in Liabilities included in disposal groups held for sale

(in EUR million)	01/01/18	Cash flows	Non-cash changes: Changes arising from obtaining or losing control of subsidiaries	Non-cash changes: Translation adjustment	Non-cash changes: Fair value changes	Non-cash changes: Other changes	31/12/2018
	160	(34)					126

c. Analysis by maturity and interest rate: see notes 7.4 and 7.6.

d. Analysis of fair value: see note 7.1

e. Detailed information

Detail subordinated debts

Cur-rency	Due	Amount in millions	a) Circumstances for early redemption b) Conditions for subordination c) Conditions for convertibility	Indemnity conditions (in %)
EUR	12/02/2019	106.4	a) Possible reimbursement for each date of payment on interest from 12/02/2014 after agreement of the ACPR b) Repayment at par after all creditors, but before loans and securities c) None	TF 4.375 From 12/02/14 Euribor 3M+72bps
GBP	15/10/2058	11.5	**a) Early Redemption in whole** The Notes are redeemable in whole in any of the following circumstances: (i) at the option of the Issuer following the occurrence of a Tax Redemption Event; (ii) at the option of the Issuer if the aggregate Adjusted Principal Balance of the outstanding Notes is less than 10% of the initial Principal Balance of all of the Notes; (iii) following early termination of the Credit Default Swap; (iv) following the early termination of the Cash Collateral Agreement or the Repo Agreement (if any) in circumstances where it is not replaced with an arrangement satisfactory to the Rating Agencies; or following the occurrence of a Note Event of Default and declaration by the Trustee that the Notes are due and repayable, the date designated for the redemption of the Notes upon the occurrence of such circumstances being an Early Redemption Date. **Early Redemption in Part** If the Actual Reference Portfolio Amount is an amount less than the then aggregate Adjusted Principal Balance of the Notes (such shortfall being the "Difference"), then the Issuer on any Note Payment Date, and provided that the Difference is a positive number equal to or greater than GBP 1,000,000 (one million) may elect to redeem the Notes, in Order of Seniority, in part in an amount equal to such Difference. b) After enforcement of the security for the Notes under the Security Documents, payments of principal and interest on the Class A Notes will be made in priority to payments of principal and interest on the Class B Notes and the Class C Notes. After enforcement of the security for the Notes under the Security Documents, payments of principal and interest on the Class B Notes will be made in priority to payments of principal and interest on the Class C Notes. c) None	up to 15/01/2022: LIBOR + 0.3% from 15/01/2022 to redemption date: LIBOR + 0.58%
GBP	15/10/2058	5.5	**a) Early Redemption in whole** The Notes are redeemable in whole in any of the following circumstances: (i) at the option of the Issuer following the occurrence of a Tax Redemption Event; (ii) at the option of the Issuer if the aggregate Adjusted Principal Balance of the outstanding Notes is less than 10% of the initial Principal Balance of all of the Notes; (iii) following early termination of the Credit Default Swap; (iv) following the early termination of the Cash Collateral Agreement or the Repo Agreement (if any) in circumstances where it is not replaced with an arrangement satisfactory to the Rating Agencies; or following the occurrence of a Note Event of Default and declaration by the Trustee that the Notes are due and repayable, the date designated for the redemption of the Notes upon the occurrence of such circumstances being an Early Redemption Date. **Early Redemption in Part** If the Actual Reference Portfolio Amount is an amount less than the then aggregate Adjusted Principal Balance of the Notes (such shortfall being the "Difference"), then the Issuer on any Note Payment Date, and provided that the Difference is a positive number equal to or greater than GBP 1,000,000 (one million) may elect to redeem the Notes, in Order of Seniority, in part in an amount equal to such Difference. b) After enforcement of the security for the Notes under the Security Documents, payments of principal and interest on the Class A Notes will be made in priority to payments of principal and interest on the Class B Notes and the Class C Notes. After enforcement of the security for the Notes under the Security Documents, payments of principal and interest on the Class B Notes will be made in priority to payments of principal and interest on the Class C Notes. c) None	up to 15/01/2022: LIBOR + 0.39% from 15/01/2022 to redemption date: LIBOR + 0.76%

3.8. Information on Equity

a. Capital stock

The share capital of Dexia Credit Local is represented by 279,213,332 shares with a nominal value of EUR 1.

b. Super-subordinated perpetual note

In 2005, Dexia Crédit Local issued EUR 700 million in super-subordinated perpetual notes. The residual outstanding amounts to EUR 56 millions.

c. Adjustment on 2018 opening equity

The impact of applying the IFRS9 requirements as of 1st January 2018 is presented in the note 1.6.

4. Other notes on the balance sheet

(some amounts may not add up due to roundings off)

4.1. Derivatives

a. Analysis by nature

	31/12/2017		31/12/2018 - continuing operations	
(in EUR million)	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through profit or loss (see notes 2.3 et 3.1)	**12,509**	**12,782**	**10,158**	**10,807**
Derivatives designated as fair value hedges	4,517	24,452	983	19,565
Derivatives designated as cash flow hedges	185	1,406	206	578
Derivatives designated as portfolio hedges	283	2,000	73	1,008
Hedging derivatives	**4,985**	**27,858**	**1,263**	**21,151**
TOTAL DERIVATIVES	**17,494**	**40,640**	**11,421**	**31,958**

b. Detail of derivatives at fair value through profit or loss

	31/12/2017				31/12/2018 - continuing operations		
	Notional amount		Assets	Liabilities	Notional amount	Assets	Liabilities
(in EUR million)	To receive	To deliver					
Interest rate derivatives	**197,039**	**196,510**	**11,443**	**11,983**	**178,129**	**8,433**	**9,475**
of which: economic hedges					*43,844*	*256*	*825*
OTC options	1,091	372	2	19	75		
OTC other	195,858	195,576	11,441	11,964	177,512	8,433	9,475
Organised market other	90	562			542		
Foreign exchange derivatives	**21,884**	**21,848**	**848**	**676**	**21,065**	**1,493**	**1,208**
of which: economic hedges					*15,978*	*411*	*265*
OTC other	21,884	21,848	848	676	21,065	1,493	1,208
Credit derivatives	**3,372**	**1,237**	**218**	**123**	**3,130**	**232**	**124**
of which: economic hedges					*1,813*	*156*	*66*
Credit default swap	3,372	1,237	218	123	3,130	232	124
TOTAL	**222,295**	**219,595**	**12,509**	**12,782**	**202,324**	**10,158**	**10,807**

c. Detail of derivatives designated as fair value hedges

	31/12/2017				31/12/2018 - continuing operations		
	Notional amount		Assets	Liabilities	Notional amount	Assets	Liabilities
(in EUR million)	To receive	To deliver					
Interest rate derivatives	**97,696**	**97,726**	**4,290**	**23,220**	**73,522**	**917**	**18,807**
OTC options	44	15		4	34		4
OTC other	97,652	97,711	4,290	23,216	73,488	917	18,803
Foreign exchange derivatives	**6,501**	**6,504**	**227**	**1,231**	**6,412**	**66**	**758**
OTC other	6,501	6,504	227	1,231	6,412	66	758
TOTAL	**104,197**	**104,230**	**4,517**	**24,452**	**79,934**	**983**	**19,565**

d. Detail of derivatives designated as cash flow hedges

	31/12/2017				31/12/2018 - continuing operations		
	Notional amount		Assets	Liabilities	Notional amount	Assets	Liabilities
(in EUR million)	To receive	To deliver					
Interest rate derivatives	**3,021**	**3,035**	**31**	**1,016**	**1,099**	**15**	**225**
OTC other	3,021	3,035	31	1,016	1,099	15	225
Foreign exchange derivatives	**890**	**918**	**154**	**389**	**873**	**190**	**353**
OTC other	890	918	154	389	873	190	353
TOTAL	**3,911**	**3,953**	**185**	**1,406**	**1,972**	**206**	**578**

e. Detail of derivatives designated as hedges of a net investment in a foreign entity

Nil.

f. Detail of derivatives designated as portfolio hedges

(in EUR million)	31/12/2017				31/12/2018 - continuing operations		
	Notional amount		Assets	Liabilities	Notional amount	Assets	Liabilities
	To receive	To deliver					
Portfolio fair value hedges of interest rate risk	13,130	13,145	283	2,000	8,451	73	1,008
TOTAL	**13,130**	**13,145**	**283**	**2,000**	**8,451**	**73**	**1,008**

4.2. Deferred taxes

a. Analysis by nature

(in EUR million)	31/12/2017	31/12/2018 Continuing operations	31/12/2018 Activities held for sale
Deferred tax assets	1,777	1,160	130
Unrecognised deferred tax assets	(1,748)	(1,140)	(130)
Recognised deferred tax assets(1)	**29**	**20**	**0**
Deferred tax liabilities(1)	**(23)**	**(24)**	**0**
TOTAL	**6**	**(4)**	**0**

(1) Deferred tax assets and liabilities are netted out when they concern the same tax entity.

The effects of movements in deferred tax on net income and on unrealised or deferred gains and losses are analysed in note 5.12 *Income tax* and in the *Consolidated statement of comprehensive income* respectively.

b. Movements

(in EUR million)	2017	2018 continuing operations
AS AT 1 JANUARY	**(26)**	**6**
Charge/credit recognised in the income statement : “Income tax”	(3)	(10)
Effect of change in tax rates - impact on the income statement	8	
Movements directly recognised in shareholders’ equity	22	(2)
Translation adjustment	4	
Other movements		1
AS AT 31 DECEMBER	**6**	**(4)**

c. Deferred taxes

(in EUR million)	31/12/2017	31/12/2018 - continuing operations
Deferred tax assets	1,777	1,160
Deferred tax liabilities	(23)	(24)
DEFERRED TAXES	**1,754**	**1,136**

Deferred taxes coming from assets	2017		2018 Continuing operations	
(in EUR million)	Total	of which, change through profit or loss	Total	of which, change through profit or loss
Loans (and loan loss provisions)	(2,136)	1,118	(1,044)	72
Securities	(1,380)	812	(1,183)	54
Derivatives	(1,279)	52	326	257
Tangible fixed assets and intangible assets		(2)		
Accruals and other assets			8	(16)
TOTAL	**(4,795)**	**1,980**	**(1,893)**	**367**

Deferred taxes coming from liabilities	2017		2018 Continuing operations	
(in EUR million)	Total	of which, change through profit or loss	Total	of which, change through profit or loss
Derivatives	4,123	(937)	1,582	(332)
Borrowings, deposits and debt securities	1,044	(361)	95	5
Provisions	141	(65)	53	(9)
Pensions	6	(1)	4	(1)
Non-deductible provisions	(9)	3	(9)	0
Accruals and other liabilities	(39)	40	4	20
TOTAL	**5,266**	**(1,321)**	**1,729**	**(317)**

Deferred taxes coming from other elements	2017		2018 Continuing operations	
(in EUR million)	Total	of which, change through profit or loss	Total	of which, change through profit or loss
Tax losses carried forward	1,283	(479)	1,299	(12)
Entity with special tax status		1		
TOTAL	**1,283**	**(478)**	**1,299**	**(12)**
TOTAL DEFERRED TAXES	**1,754**		**1,136**	

d. Expiry date of unrecognised deferred tax assets

(in EUR million)	31/12/2017			
Nature	**Between 1 to 5 years**	**Over 5 years**	**Unlimited maturity**	**Total**
Temporary difference			(512)	(512)
Tax losses carried forward	(1)	(338)	(897)	(1,236)
TOTAL	**(1)**	**(338)**	**(1,409)**	**(1,748)**

(in EUR million)	31/12/2018 – Continuing operations		
Nature	**Over 5 years**	**Unlimited maturity**	**Total**
Temporary difference		(87)	(87)
Tax losses carried forward	(151)	(902)	(1,053)
TOTAL	**(151)**	**(989)**	**(1,140)**

4.3. Offsetting financial assets and financial liabilities

The following table presents the amounts of financial assets and liabilities before and after offsetting.

The column "Gross amounts set off on the balance sheet" discloses the amounts offset in accordance with the IAS 32 criteria described in note "Accounting principles and rules governing the consolidated financial statements". Amounts set off are related to Dexia's derivative instruments and repurchase agreements traded with clearing houses.

The column "Impact of Master Netting agreements and similar agreements" includes the amounts of financial instruments that are subject to an enforceable master netting arrangement or similar agreement but which do not meet the offsetting criteria defined by IAS 32. This is the case of Dexia's transactions that are subject to ISDA Master Netting Agreements and Global Master Repurchase Agreements for which offsetting can only be performed in case of default, insolvency or bankruptcy of one of the counterparties.

The Dexia Group Master Netting Agreement ("DGMNA") dated as of 2 November 2009 had been concluded between Dexia SA/NV, Banque Internationale à Luxembourg S.A. (formerly known as Dexia Banque Internationale à Luxembourg S.A.), Belfius Bank SA/NV (formerly known as Dexia Bank Belgium SA/NV), Dexia Crédit Local S.A. and Dexia Crediop SpA.

The DGMNA permits netting or "Set-Off" amounts owed under transactions governed by different agreements, including one or more ISDA Master agreements or other trading agreements ("Principal Agreements") between the parties to the DGMNA. The DGMNA essentially aims at allowing netting in the event of a default on behalf of one of the parties, and therefore permits netting only when the transactions under the Principal Agreements are accelerated, terminated, liquidated or canceled (a so-called "Close Out" situation).

When a party is in default under the DGMNA, each other non defaulting Party may elect to Close Out all of the transactions under each Principal Agreement to which such non defaulting Party is a party.

Banque Internationale à Luxembourg and Belfius Banque SA/NV are no longer part of the DGMNA since 29 January 2014, respectively 16 November 2015.

The columns "Cash collateral" and "Financial instruments received or given as collateral" disclose the amounts related to financial collateral. They mainly include Dexia's guarantee deposits and securities received or given as collateral and disclosed at their fair value. These guarantees can only be exercised in case of default, insolvency or bankruptcy of one of the counterparties.

Dexia includes instruments at their recognised amounts, however the amount of collateral is limited to the amount of the guaranteed asset or liability.

a. Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

	31/12/2017						
	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Related amounts not set off on the balance sheet			Net amounts
(in EUR million)				Impact of Master Netting Agreements and similar agreements	Cash collateral received	Financial instruments received as collateral	
Derivatives	16,933	(347)	16,586	(9,834)	(1,765)	(23)	4,964
Reverse repurchase and similar agreements	2,980	0	2,980	(550)	(181)	(2,248)	0
TOTAL FINANCIAL ASSETS IN SCOPE OF OFFSETTING DISCLOSURES	**19,913**	**(347)**	**19,566**	**(10,384)**	**(1,946)**	**(2,271)**	**4,964**

b. Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

	31/12/2017						
	Gross amounts of financial liabilities	Gross amounts set off on the balance sheet	Net amounts of financial liabilities presented on the balance sheet	Related amounts not set off on the balance sheet			Net amounts
(in EUR million)				Impact of Master Netting Agreements and similar agreements	Cash collateral given	Financial instruments given as collateral	
Derivatives	40,847	(347)	40,500	(9,834)	(27,050)	0	3,616
Repurchase and similar agreements	28,010	0	28,010	(550)	(168)	(27,291)	1
TOTAL FINANCIAL LIABILITIES IN SCOPE OF OFFSETTING DISCLOSURES	**68,857**	**(347)**	**68,510**	**(10,384)**	**(27,218)**	**(27,291)**	**3,617**

c. Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

	31/12/2018 - continuing operations						
	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Related amounts not set off on the balance sheet			Net amounts
(in EUR million)				Impact of Master Netting Agreements and similar agreements	Cash collateral received	Financial instruments received as collateral	
Derivatives	11,217	(578)	10,639	(5,863)	(2,414)	0	2,362
Reverse repurchase and similar agreements	2,575	0	2,575	(550)	(297)	(1,728)	0
TOTAL FINANCIAL ASSETS IN SCOPE OF OFFSETTING DISCLOSURES	**13,792**	**(578)**	**13,214**	**(6,413)**	**(2,711)**	**(1,728)**	**2,362**

d. Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

	31/12/2018 - continuing operations						
	Gross amounts of financial liabilities	Gross amounts set off on the balance sheet	Net amounts of financial liabilities presented on the balance sheet	Related amounts not set off on the balance sheet			Net amounts
(in EUR million)				Impact of Master Netting Agreements and similar agreements	Cash collateral given	Financial instruments given as collateral	
Derivatives	32,482	(578)	31,904	(5,863)	(25,806)	0	234
Repurchase and similar agreements	17,395	0	17,395	(550)	0	(16,843)	1
TOTAL FINANCIAL LIABILITIES IN SCOPE OF OFFSETTING DISCLOSURES	**49,877**	**(578)**	**49,299**	**(6,413)**	**(25,806)**	**(16,843)**	**235**

4.4. Related-party transactions

a. Related-party transactions

	Parent company (Dexia)	
(in EUR million)	2017	2018
Borrowings	630	688
Interest expense on borrowings	2	

Since 31 December 2012, as a result of the capital increase subscribed by the Belgian and French States to the capital increase initiated by Dexia, Dexia Credit Local's parent company, these shareholders have become the only two shareholders having a significant influence on Dexia Crédit Local.
Group transactions with these shareholders are described in 4.4 C. below. Persuant to IAS 24 § 25, the detail of loans, borrowings or commitments with the States Shareholders are not subject to a separate disclosure.
Loans to the key management have been granted at market conditions and their amounts are not significant.

b. Compensation of key management personnel(*)

(in EUR million)	2017	2018
Short-term benefits(1)	1.9	2.4
Termination contract benefits	0.5	0.3

(*) Key management personnel are members of the Board of Directors and of the Management Board.
(1) Includes salary and other benefits

c. Transactions with Belgian, French and Luxembourg States

Guarantee mechanism in favour of Dexia's financing

2013 guarantee agreement
On 24 January 2013, the French, Belgian and Luxembourg States and Dexia and Dexia Crédit Local ("DCL") entered into a Guarantees Issuance Agreement, and granted an Independent Guarantee pursuant to such Guarantees Issuance Agreement in favour of Dexia Crédit Local (main issuer and main operating entity of the Group) pursuant to the Belgian royal decree of 19 December 2012 amending the royal decree of 18 October 2011 granting a State guarantee for certain loans of Dexia and Dexia Crédit Local SA" (as ratified by the law of 17 June 2013 "portant des dispositions fiscales et financières et des dispositions relatives au développement durable"), the French Enabling Law, as amended by the amending finance law n° 2012-1510 of 29 December 2012 and the Luxembourg Enabling Law.

Pursuant to this 2013 Guarantee, the three States guarantee severally, but not jointly, the performance by DCL of their repayment obligations resulting from certain financings provided by qualified, institutional or professional investors (within the meaning of the Guarantee), provided that these obligations arise from certain financings contracted or issued in the form of securities and financial instruments, deposits and borrowings (with a maximum maturity of ten years) between 24 January 2013 and 31 December 2021.

This Guarantee is effective immediately. It replaces the 2011 Temporary Guarantee which is terminated without retroactive effect and without prejudice to any rights arising pursuant to guaranteed obligations entered into or issued prior to the effectiveness of the Guarantee.

The States' several but not joint guarantee pursuant to this Agreement may not exceed a maximum aggregate limit of EUR 85 billion in principal, it being understood that the amounts which are so capped include outstanding guaranteed obligations pursuant to the Guarantee, the 2011 Temporary Guarantee, or any other guarantee granted pursuant to the Guarantees Issuance Agreement but exclude outstanding guaranteed obligations pursuant to the 2008 Guarantee Agreement described below.

The States guarantee the repayment obligations in the following proportion:
(i) 51.41% for the Belgian State (corresponding to a maximum amount of EUR 43.6985 billion);
(ii) 45.59% for the French State (corresponding to a maximum amount of EUR 38.7515 billion); and
(iii) 3.0% for the Luxembourg State (corresponding to a maximum amount of EUR 2.55 billion).
Pursuant to the Guarantee Issuance Agreement, the following guarantee fee is due to the States:
(i) an upfront commission equal to 0.50% of the EUR 85 billion limit, less the upfront commission already paid in connection with the 2011 Temporary Guarantee i.e. a balance of EUR 150 million.
(ii) a monthly fee, calculated at a rate per annum of 0.05% on the amount outstanding under the guaranteed obligations, both on the pre-existing guaranteed amounts outstanding under the 2011 Temporary Guarantee and the new guaranteed amounts outstanding under guarantees issued in accordance with the Guarantees Issuance Agreement (it being understood that such monthly fee shall, with respect to the portion of the outstanding amount of the guaranteed obligations that would be held by BDF Gestion SA or by the Banque de France, the National Bank of Belgium, be calculated in accordance with the 2011 Temporary Guarantee Agreement (as long as the ECB accepts the all-in fee principle).

The outstanding amount of the guaranteed debt pursuant to the 2013 guarantee agreement is disclosed on a daily basis on the website of the National Bank of Belgium (http://www.nbb.be/DOC/DQ/warandia/index.htm).
As at 31 December 2018, the total outstanding amount of obligations guaranteed by the States pursuant to the 2013 Guarantee Agreement was EUR 65.5 billion. In 2018, Dexia paid a total monthly remuneration of EUR 33 million to the States for these guarantees.

Guarantee for the financial products portfolio

Dexia entered into an agreement for the sale of the insurance activities of Financial Security Assurance (FSA) to Assured Guaranty Ltd (Assured) on 14 November 2008. The sale was completed on 1 July 2009. The Financial Products activity of FSA, managed by FSA Asset Management (FSAM), was carved out of the transaction and remains under Dexia's ownership.

In that context, the Belgian and French States agreed to provide a guarantee on the Financial Products assets portfolio. This guarantee was approved by the European Commission on 13 March 2009. The terms of this guarantee are set out in two agreements, the First Demand Guarantee Agreement relating to the "financial products" portfolio of FSA Asset Management LLC and the Guarantee Reimbursement Agreement, entered into by the Belgian and French States and Dexia. The main relevant terms of these agreements have been described in the 2011 Annual Report page 146.

Pursuant to these agreements, the Belgian and French States each agreed to guarantee, severally and not jointly, the obligations of Dexia SA pursuant to a put agreement which gave FSAM the right to "put" to Dexia and/or DCL certain assets (the Put Portfolio Assets) included in the FSAM portfolio as at 30 September 2008 upon the occurrence of certain trigger events up to an aggregate amount equal to USD 16.98 billion and up to 62.3711% for the Belgian State and 37.6289% for the French State.

With the consent of the Belgian and French States, FSAM sold to DCL during 2011 all the remaining Put Portfolio Assets. DCL subsequently sold substantially all of the Put Portfolio Assets to third parties. As at 31 December 2011, there were no longer any Put Portfolio Assets held by FSAM that can be put to Dexia SA and DCL and (if those Dexia entities did not pay the required amount to FSAM) require the States to make a payment to FSAM. Dexia also no longer owes the States any guarantee fee with respect thereto. The guarantee by the Belgian and French States on the Put Portfolio Assets, however, technically remains outstanding. The States are thus still entitled to recover from Dexia any amounts paid pursuant to their guarantee according to the Guarantee Reimbursement Agreement.

For a more detailed description of the guarantee for the Financial Products portfolio, see the Special Board Report of 12 May 2009, as last updated by the Special Board Report of 18 March 2011, both available on the website of Dexia (www.dexia.com).

4.5. Acquisitions and disposals of consolidated companies

a. Acquisitions

Nil

b. Disposals

On March 17, 2018, Dexia reached an agreement with qualified investors concerning an off-market transaction about the sale of all its shares in Dexia Israel Bank (Dexia Israel), representing 58,59% of the capital.

The assets and liabilities disposed were as follows:

(in EUR million)	2018
Cash and cash equivalent	712
Financial assets at fair value through equity	140
Financial assets at amortised cost - Customer loans and advances	1,093
Financial assets at amortised cost - Debt securities	136
Current tax assets	12
Deferred tax assets	2
Tangible fixed assets	6
Intercompany accounts - net position	(36)
Customer borrowings and deposits	(1,262)
Debt securities	(518)
Accruals and other liabilities	(76)
Provisions	(1)
Subordinated debt	(38)
NET ASSETS	**171**
Sale price	81
Less: cost of the transaction	(1)
Less: cash and cash equivalents in the subsidiary sold	(712)
Net cash inflow on sale	(632)

4.6 Information on disposals groups held for sale and discontinued operations

a. Assets and liabilities included in disposal groups held for sale

In 2017, pursuant to IFRS 5, Dexia Israel was classified as a disposal group held for sale.
On 14 December 2018, Dexia Crédit Local and Helaba have signed a sale and purchase agreement allowing Helaba to buy 100% of the shares in Dexia Kommunalbank Deutschland (DKD).
Dexia Kommunalbank Deutschland was classified as disposal group held for sale and qualified as discontinued operations.

(in EUR million)	2017 Dexia Israel
Cash and cash equivalents	712
Financial assets available for sale	140
Customers loans and advances	1,098
Financial assets held to maturity	136
Current tax assets	12
Tangible fix assets	6
Intercompany accounts: net position	(36)
Customer borrwings and deposits	(1,262)
Debt securities	(518)
Other liabilities	(76)
Provisions	(1)
Subordinated liabilities	(38)
NET ASSETS	**174**

(in EUR million)	2018 Dexia Kommunalbank Deutschland
Cash and cash equivalents	102
Cash and central banks	136
Financial assets at fair value through profit or loss	727
Hedging derivatives	3,159
Financial assets at fair value through other comprehensive income	122
Financial assets at amortised cost - Debt securities	2,789
Financial assets at amortised cost - Interbank loans and advances	2,350
Financial assets at amortised cost - Customer loans and advances	14,735
Fair value revaluation of portfolio hedges	255
Accruals and other assets	8
Tangible fixed assets	3
Intercompany accounts : net position	(111)
Financial liabilities at fair value through profit or loss	(524)
Hedging derivatives	(3,703)
Interbank borrowings and deposits	(1,064)
Customer borrowings and deposits	(2,139)
Debt securities	(16,614)
Accruals and other liabilities	(2)
Provisions	(8)
NET ASSETS	**221**

b. Income Statement

(in EUR million)	31/12/2017 Dexia Kommunalbank Deutschland	31/12/2018 Dexia Kommunalbank Deutschland
Net banking income	60	48
Operating expenses	(29)	(28)
Cost of credit risk and others		1
Net result before tax	31	22
Income tax		
Net result	31	22
Income from discontinued operations, net of tax	31	22
Minority interest		
Group share	31	22
Earning per share		
- basic	0.11	0.08
- diluted	0.11	0.08

c. Net cash flow

(in EUR million)	**31/12/2017**	**31/12/2018**
Net cash flows from operating activities	(174)	71
Net cash flows from financing activities	**(30)**	**(14)**
TOTAL	**(203)**	**57**

4.7. Share-based payments

Dexia stock option plans (number of options)	**2017**	**2018**
Outstanding at the beginning of the period	4,689,026	2,323,202
Expired during the period	(2,365,824)	(2,323,202)
Outstanding at the end of the period	**2,323,202**	**0**
Exercisable at the end of the period	**2,323,202**	**0**

		2017	
Range of exercise prices (EUR)	**Number of outstanding options**	**Weighted-average exercise price (EUR)**	**Weighted-average remaining contractual life (years)**
10.74 - 12.35	2,323,202	12.16	0.50
TOTAL	**2,323,202**		

Since 2008 no option has been exercised. In fact they are out of the money.
All stock option plans expired in 2018.
Following the reverse stock split, the general conditions accompanying the issue of warrants were amended by notarised deed in order to place the beneficiaries of warrants in a situation substantially equivalent to that in which they would have been if the aforementioned operation had not occurred. The number of warrants necessary to subscribe to 1 (one) new share is henceforth one thousand (1,000). The exercice price per warrant remains unchanged.

4.8. Capital stock

	2017	2018
Number of shares authorised	279,213,332	279,213,332
Number of shares issued and fully paid	279,213,332	279,213,332
Number of shares issued and not fully paid	0	0
Par value of the share	**1**	**1**
Outstanding as of January, 1st	279,213,332	279,213,332
Number of shares issued		
Outstanding as of December, 31	279,213,332	279,213,332
Rights, preferences and restrictions, including restrictions on the distribution of dividends and the repayment of capital	0	0
Number of treasury shares	0	0
Number of shares reserved for issue under stock options and contracts for the sale of shares(1)	NA	NA

(1) Under the stock option plans of Dexia Crédit Local, these are Dexia shares that are granted to the employees.

See note 4.7 Share-based payments.

4.9. Exchange rates

The primary exchange rates are presented in the following schedule.

		2017		2018	
		Closing rate(1)	**Average rate(2)**	**Closing rate(1)**	**Average rate(2)**
Australian dollar	AUD	1.5364	1.4812	1.6231	1.5827
Canadian dollar	CAD	1.5064	1.4754	1.5613	1.5315
Swiss Franc	CHF	1.1720	1.1166	1.1282	1.1507
Czech Koruna	CZK	25.5255	26.2852	25.7675	25.6815
Danish Krone	DKK	7.4456	7.4388	7.4678	7.4534
British Pound Sterling	GBP	0.8878	0.8760	0.8940	0.8855
Hong-Kong dollar	HKD	9.3774	8.8780	8.9498	9.2392
Hungarian forint	HUF	310.1400	309.2842	320.9350	319.9317
Shekel	ILS	4.1613	4.0640	4.2812	4.2496
Japenese Yen	JPY	135.0350	127.2879	125.6600	129.9363
Won	KRW	1,281.8400	1,276.8300	1,274.0500	1,294.9375
Mexican Peso	MXN	23.5333	21.4682	22.4678	22.6531
Norwegian Krone	NOK	9.8219	9.3778	9.9373	9.6258
New Zealand dollar	NZD	1.6881	1.5993	1.7075	1.7079
Swedish Krona	SEK	9.8271	9.6457	10.2205	10.2998
Singapore dollar	SGD	1.6035	1.5629	1.5582	1.5894
New Turkish Lira	TRY	4.5474	4.1484	6.0403	5.7049
US Dollar	USD	1.1998	1.1388	1.1430	1.1787

(1) Rate observed on Reuters at 4:45 pm on the last business day of the month of December.
(2) Average of the closing rates used by the Dexia group.

4.10. Management of capital

The information regarding management of capital is provided in the chapter information on capital and liquidity of the Management report.

Management report
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5. Notes on the income statement

(some amounts may not add up due to roundings off)

5.1. Interest income - Interest expense

(in EUR million)	2017	2018
Interest income	**8,268**	**7,864**
a) Interest income on assets not measured at fair value through P/L	**2,673**	**2,112**
Cash and central banks	54	23
Interbank loans and advances	126	
Financial assets at amortised cost - Interbank loans and advances		116
Customer loans and advances	2,046	
Financial assets at amortised cost - Customer loans and advances		728
Financial assets at amortised cost - Debt securities		1,044
Financial assets available for sale	307	
Financial assets at fair value through OCI		193
Financial asssets held to maturity	106	
Impaired assets (2017)	3	
Other	30	7
b) Interest income on assets measured at fair value through P/L	**4,987**	**5,382**
Loans and securities held for trading	16	
Financial assets mandatorily at fair value through P/L		141
Derivatives held for trading	3,137	3,451
Hedging derivatives	1,834	1,790
c) Interests received on financial liabilities	**609**	**370**
Interests received on financial liabilities[(2)]	609	370
Interest expense	**(8,059)**	**(7,777)**
a) Interest expense on liabilities not measured at fair value	**(1,267)**	**(1,409)**
Interbank borrowings and deposits	(397)	(469)
Customer borrowings and deposits	(33)	(26)
Debt securities	(790)	(875)
Subordinated debt	(3)	(1)
Amounts covered by sovereign guarantees[(1)]	(38)	(33)
Other	(6)	(4)
b) Interest expense on liabilities measured at fair value	**(6,381)**	**(6,002)**
Liabilities designated at fair value through P/L	(63)	(51)
Derivatives held for trading	(3,292)	(3,351)
Hedging derivatives	(3,026)	(2,601)
c) Interests paid on financial assets	**(411)**	**(366)**
Interests paid on financial assets[(2)]	(411)	(366)
Net interest income	**209**	**87**

(1) This item includes fees paid to the States for the guarantees they granted to Dexia's debt. See also note 4.4.c Related-party transactions - Transactions with the Belgian, French and Luxembourg States.

(2) In the current environment of very low or negative rates, Dexia decided to present separately positive interests on financial liabilities and negative interests on financial assets.

5.2. Fees and Commissions

	2017			2018		
(in EUR million)	Income	Expense	Net	Income	Expense	Net
Lending activity	8	0	8	7	(1)	6
Purchase and sale of securities	0	(3)	(2)	0	(1)	(1)
Payment services	1	(3)	(2)	0	(3)	(3)
Services on securities other than custodial services	0	(1)	(1)	0	(1)	(1)
Custodial services	3	(1)	2	3	0	2
Intermediation on bond lending and reverse repo	0	(5)	(5)	1	(7)	(6)
Other	2	(1)	1	0	(1)	0
TOTAL	**14**	**(15)**	**(1)**	**11**	**(15)**	**(4)**

Fees and commissions related to financial assets and financial liabilities which are not at fair value through profit or loss are below materiality.

5.3. Net gains (losses) on financial instruments at fair value through profit or loss

(in EUR million)	2017	2018
Dividend income on non trading equity instruments assets mandatorily at FVTPL		3
Net trading income	(126)	55
Net result of hedge accounting	(143)	(87)
Net result of financial liabilities designated at fair value through profit or loss(1)	35	33
Net result on non-trading financial assets mandatorily at fair value through profit or loss(2)		(37)
Funding costs associated with non-collateralised derivatives (FVA)(3)(4)	40	(73)
Change in fair value of derivatives attributable to counterparty risk (credit value adjustment)(3)	116	(35)
Change in fair value of derivatives attributable to own credit risk (debit value adjustment)(3)	(30)	5
Net result of foreign exchange transactions	0	(7)
TOTAL	**(108)**	**(144)**
(1) among which derivatives included in a fair value option strategy	(25)	(53)
(2) among which derivatives included in an economic hedge strategy		106

(3) FVA, CVA et DVA are booked in the result of trading activities

(4) In accordance with the provisions of the IFRS 13 accounting standard and in line with market practice, the Dexia Group developed a methodology for the calculation, from June 2015, of a Funding Valuation Adjustment (FVA) aimed measuring the funding costs associated with non-collateralised derivatives.

All interests received and paid on assets, liabilities and derivatives are recorded in the net interest income.
Thus, net gains (losses) on trading transactions and net gains (losses) on hedging transactions only include the change in the clean value of derivatives, the revaluation of assets and liabilities qualified as hedges and the revaluation of the portfolio held for trading.

Analysis of net result of hedge accounting

(in EUR million)	2017	2018
Fair value hedges	**(89)**	**(92)**
Fair value changes of the hedged item attributable to the hedged risk	(1,897)	(1,361)
Fair value changes of the hedging derivatives	1,808	1,269
Cash flow hedges(1)	**(55)**	**5**
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	(55)	5
Portfolio hedge	**1**	**0**
Fair value changes of the hedged item	(389)	(256)
Fair value changes of the hedging derivatives	390	256
TOTAL	**(143)**	**(87)**
Discontinuation of cash flow hedge accounting (cash flows still expected to occur) - amounts recorded in interest margin	**(1)**	**3**

(1) In 2017, the impact generated by the breaking of hedging relationships following the disposal of positions related to the Commonwealth of Puerto Rico (EUR -54 million).

The inefficiency is mainly caused by the volatility of the variable component of hedging derivatives.

5.4. Net gains (losses) on financial assets available for sale/Net gains (losses) on financial assets measured at FVOCI

(in EUR million)	2017
Dividends on securities available for sale	2
Net gain (loss) on disposals of financial assets available for sale(1)(2)	7
Impairment of variable-income securities available for sale	(1)
Net gain (loss) on disposals of loans and advances(3)	(60)
Net gain (loss) on redemption of debt securities	(8)
TOTAL	**(60)**

(1) Except for gains and losses on impaired fixed-income securities, which are included in cost of risk
(2) As part of a disposal program, EUR 1.3 billion of securities were sold with a negative result of EUR -97.5 million.
The disposal of these assets has implied the unwinding of the derivatives designated as portfolio hedges which generated a recognition of losses for EUR -91 million.
(3) As part of a disposal program, EUR 604 million of receivables from the French public sector were sold with a negative result of EUR -25 million.
The disposal of these assets has implied the unwinding of the derivatives designated as portfolio hedges which generated a recognition of losses for EUR -67 million.
It also includes a loss of EUR -23 million on SPV Sumitomo loans which went out from the group's balance sheet due to the deconsolidation of the SPV.

(in EUR million)	2018
Dividend income on equity instruments designated at FVOCI - investments derecognised during the reporting period	2
Net gain (loss) on disposals of loans measured at FVOCI(1)	12
Net gain (loss) on disposals of bonds measured at FVOCI	(2)
TOTAL	**11**

(1) As part of a disposal program, EUR 616 million of receivables from the French public sector were sold with a positive result of EUR 13 million.

5.5. Net gains (losses) on financial instruments measured at AC

(in EUR million)	2018
Net gain (loss) on disposals of loans measured at AC(1)(2)	(5)
Net gain (loss) on disposals of bonds measured at AC(1)(3)	(3)
Net gain (loss) on redemption of borrowings and deposits	(6)
TOTAL	**(14)**

(1) except for gains and losses on impaired securities, which are included in cost of credit risk.
(2) This item mainly includes the loss on disposal of projects in Spain following the worsening of their financial position.
The item also includes a negative result of EUR -2.1 million on anticipated reimbursement of assets in GBP.
(3) The loss is mainly related to the disposal of bonds on US communities as part of the decrease in concentration on certain counterparties.

5.6. Other income

(in EUR million)	2017	2018
Litigations(1)	37	6
Other income	6	11
TOTAL	**43**	**17**

(1) Structured loans are regularly analysed based on the progress of cases and on their environment (court decisions, parameters for establishment of support funds, ...). This generates charges and reversals, which are disclosed respectively in Note 5.6 Other income *and in Note* 5.7 Other expenses.

5.7. Other expenses

(in EUR million)	2017	2018
Provisions for litigations(1)	(6)	(20)
Other expenses	(2)	0
TOTAL	**(8)**	**(21)**

(1) Structured loans are regularly analysed based on the progress of cases and on their environment (court decisions, parameters for establishment of support funds, ...). This generates charges and reversals, which are disclosed respectively in Note 5.6 Other income *and in Note* 5.7 Other expenses.

5.8. Operating expenses

(in EUR million)	2017	2018
Payroll costs	(154)	(112)
General and administrative expenses	(205)	(235)
TOTAL	**(358)**	**(348)**

a. Payroll costs

(in EUR million)	2017	2018
Compensation and salary expense	(97)	(81)
Social security and insurance expense	(36)	(28)
Employee benefits	(7)	(3)
Restructuring costs	(11)	3
Other	(3)	(3)
TOTAL	**(154)**	**(112)**

b. Employee information

	2017[1]	2018
(Average full time equivalent)	Fully consolidated	Fully consolidated
Executive staff	19	18
Administrative staff	821	624
Non-administrative and other personnel	13	1
TOTAL	**853**	**643**

(1) 2017 was restated in order to present the figures without DKD' s contribution

	2017[1]						
(Average full time equivalent)	France	Italy	Spain	Other Europe	USA	Other non Europe	Total
Executive staff	3	2	1	1	8	4	19
Administrative staff	550	98	18	22	92	41	821
Non-administrative and other personnel	0	1	0	0	12	0	13
TOTAL	**553**	**101**	**19**	**23**	**112**	**45**	**853**

(1) 2017 was restated in order to present the figures without DKD' s contribution.

	2018						
(Average full time equivalent)	France	Italy	Spain	Other Europe	USA	Other non Europe	Total
Executive staff	6	2	1	1	8	0	18
Administrative staff	432	82	8	19	83	0	624
Non-administrative and other personnel	0	1	0	0	0	0	1
TOTAL	**438**	**85**	**9**	**20**	**91**	0	**643**

c. General and administrative expenses

(in EUR million)	2017	2018
Cost of premises	(4)	(5)
Rent expense[1]	(17)	(15)
Fees	(46)	(42)
Marketing, advertising and public relations	(1)	(1)
IT expense	(33)	(57)
Software, research and development	(4)	(2)
Maintenance and repair	(1)	(1)
Insurance (except related to pensions)	(4)	(3)
Other taxes[2]	(73)	(90)
Other general and administrative expenses	(20)	(19)
TOTAL	**(205)**	**(235)**

(1) This amount does not include IT equipment rental expenses, which are included in the "IT expense" line
(2) 2017: This item includes a charge of EUR -67 million representing 85% of the amount of payment to the annual contribution to the Single Resolution Fund (SRF) introduced by the European authorities within the framework of the Single Supervisory Mechanism, an amount of EUR -3 million representing the fees for the ECB supervision, an amount of EUR -7.7 million representing the annual levy for systemic risk and an amount of EUR -2.2 million representing the Dexia contribution to the local authority and hospital sector support funds introduced in France.
2018: This item includes a charge of EUR -71.7 million representing 85% of the amount of payment to the annual contribution to the Single Resolution Fund (SRF) introduced by the European authorities within the framework of the Single Supervisory Mechanism, an amount of EUR -2.9 million representing the fees for the ECB supervision, an amount of EUR -3.7 million representing the annual levy for systemic risk and an amount of EUR -1,7 million representing the Dexia contribution to the local authority and hospital sector support funds introduced in France.

5.9. Depreciation, amortisation and impairment of tangible fixed assets and intangible assets

Depreciation and amortisation (in EUR million)	**2017**	**2018**
Depreciation of other tangible fixed assets	(2)	(1)
Amortisation of intangible assets	(11)	(16)
TOTAL	**(14)**	**(17)**

Impairment

Nil

Losses or gains

Nil

5.10. Cost of credit risk

(in EUR million)	**2017**		
	Collective impairment	**Specific impairment and losses**	**Total**
Credit (loans, commitments and securities held to maturity)	72	(39)	33
TOTAL	**72**	**(39)**	**33**

Detail of collective and specific impairments

Collective impairment	**2017**		
(in EUR million)	**Additions**	**Recoveries**	**Total**
Loans and securities held to maturity	(62)	134	72
TOTAL	**(62)**	**134**	**72**

Specific impairment	**2017**			
(in EUR million)	**Additions**	**Recoveries**	**Losses**	**Total**
Customer loans and advances	(89)	140	(92)	(41)
Off-balance sheet commitments	(1)	3	0	2
TOTAL CREDIT	**(90)**	**143**	**(92)**	**(39)**
TOTAL	**(90)**	**143**	**(92)**	**(39)**

	2018				
(EUR million)	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired debt instruments**	**Total**
Financial assets at amortised cost - Interbank loans and advances		1			1
Financial assets at amortised cost - Customer loans and advances	(1)	60	(39)	6	26
Financial assets at amortised cost - Interbank debt securities	2	5			7
Financial assets at amortised cost - Customer debt securities		89	(26)		63
Financial assets at fair value through OCI - Customer loans and advances			1		1
Financial assets at fair value through OCI - Debt securities	2	4	23		28
Other accounts receivable			(3)		(3)
Off-balance sheet commitments		5			4
TOTAL	**3**	**162**	**(43)**	**6**	**128**

Detail

Stage 1 (in EUR million)	2018 Additions	 Recoveries	 Total
Financial assets at amortised cost - Customer loans and advances	(2)	1	(1)
Financial assets at amortised cost - Interbank debt securities		2	2
Financial assets at amortised cost - Customer debt securities	(2)	3	0
Financial assets at fair value through OCI - Debt securities	(1)	2	2
TOTAL	**(5)**	**8**	**3**

Stage 2 (in EUR million)	2018 Additions	 Recoveries	 Total
Financial assets at amortised cost - Interbank loans and advances		1	1
Financial assets at amortised cost - Customer loans and advances	(18)	78	60
Financial assets at amortised cost - Interbank debt securities	(18)	23	5
Financial assets at amortised cost - Customer debt securities	(168)	257	89
Financial assets at fair value through OCI - Customer loans and advances	(2)	3	
Financial assets at fair value through OCI - Debt securities	(1)	4	4
Off-balance sheet commitments	(2)	6	5
TOTAL	**(209)**	**371**	**162**

Stage 3 (in EUR million)	2018 Additions	 Recoveries	 Losses	 Collections	 Total
Financial assets at amortised cost - Customer loans and advances	(36)	17	(20)		(39)
Financial assets at amortised cost - Customer debt securities	(87)	61			(26)
Financial assets at fair value through OCI - Customer loans and advances		1			1
Financial assets at fair value through OCI - Debt securities				23	23
Other accounts receivable	(3)				(3)
TOTAL	**(126)**	**79**	**(20)**	**23**	**(43)**

5.11. Net gains (losses) on other assets

(in EUR million)	2017	2018
Net gains (losses) on disposals of buildings	2	1
Net gains (losses) on disposals of consolidated equity investments[1]	0	8
TOTAL	**2**	**9**

(1) the sale of Dexia Israel

5.12. Income tax

Detail of tax expense (in EUR million)	2017 restated	2018
Income tax on current year	(6)	3
Deferred taxes on current year	7	(5)
TAX ON CURRENT YEAR RESULT (A)	**0**	**(2)**
Income tax on previous year	(7)	(1)
Deferred taxes on previous year	(2)	(5)
OTHER TAX EXPENSE (B)	**(9)**	**(6)**
TOTAL (A) + (B)	**(9)**	**(8)**

Effective corporate income tax charge

The overall rate of the French corporate income tax (CIT) amounts to 34.43% (including 33 1/3% of CIT plus 3.3% of additional contribution based on the CIT amount).
The French budget law for 2018 provides for a gradual reduction of the corporate tax rate. However, for large companies, the rate will remain at 33 1/3% in 2018 for profits above EUR 500,000 (28% for profits below this threshold). The rate will be 31% in 2019 for profits above EUR 500,000 (28% for profits below this threshold). However, according to the Prime Minister's announcement made last December, large companies could finally be excluded from this decrease and therefore in 2019 they would continue to be subject to a rate of 33 1/3%. Then this rate will fall, for all profits, to 28% in 2020, then to 26.5% in 2021, and finally to 25% from 2022. The additional contribution of 3.3% will remain due.
The deferred tax rate for Dexia Crédit Local Group companies under French law is now 25.825% (25% rate plus the additional contribution), knowing that no deferred tax asset was recognised.
The rate applied to foreign subsidiaries results is the one applicable locally according to the national legislation.
The average tax rate recorded in 2017 is 0.08% and -0.71% in 2018.
The difference with the French rate can be explained as follows:

(in EUR million)	2017	2018
Net income before tax	**(262)**	**(296)**
Tax base	**(262)**	**(296)**
Statutory tax rate	34.43%	34.43%
Theoretical corporate income tax at the standard rate	**90**	**102**
Impact of differences between foreign tax rates and the standard Belgian tax rate	24	20
Tax effect of non-deductible expenses	(107)	(81)
Tax effect of non-taxable income	133	92
Impact of items taxed at a reduced rate	5	(4)
Tax effect of change in tax rates	8	0
Other additional taxes or tax savings(1)	2	(66)
Tax effect from reassessment of unrecognised deferred tax assets	(153)	(65)
Tax on current year	**0**	**(2)**
Effective tax rate	**0.08%**	(0.71%)

(1) In 2018, it includes an amount of EUR -59 million related to the discrepancy between fiscal and accounting value of assets in the framework of intragroup transfer.

Tax consolidation

Dexia SA établissement stable in France is the head of the tax group, bringing together the following companies:
- Dexia Crédit Local
- GENEBUS Lease
- Dexia Flobail
- DEXIARAIL
- DCL Evolution
- Dexia CLF Régions Bail

Tax savings made by the tax group, as a result of losses, are recorded by Dexia Etablissement Stable (outside the scope of Dexia Crédit Local). However an addendum to the tax consolidation's agreement between DSA ES and DCL allows the latter under certain conditions to benefit from tax savings as a result of its own losses and up to the level of tax transfers performed by its subsidiaries to DSA ES.

5.13. Earnings per share

a. Earnings per share

Basic earnings per share are obtained by dividing "Net income, Group share" by the weighted average number of ordinary shares in issue during the year, less the average number of ordinary shares purchased by the company and held as treasury stock.

	2017	2018
Net income, Group share (EUR million)	(241)	(256)
Weighted average number of ordinary shares (millions)	279	279
Basic earnings per share (in EUR)	(0.86)	(0.92)
- of which, related to continuing operations	*(0.97)*	*(1.00)*
- of which, related to discontinued operations	*0.11*	*0.08*

b. Diluted earnings per share

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to reflect the conversion of all dilutive potential ordinary shares resulting from share options granted to employees. For stock options, the calculation of the number of shares that could have been acquired at fair value (calculated as the average annual share price) is based on the monetary value of the subscription rights attached to the outstanding options.
The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the shares options.
The potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share.
They are antidilutive and not taken into account when their conversion to ordinary shares would decrease loss per share.

No adjustment is made to net income attributable to equity holders of the parent.

	2017	2018
Net income, Group share (EUR million)	(241)	(256)
Weighted-average number of ordinary shares (millions)	279	279
Weighted average number of ordinary shares used for the calculation of diluted earnings per share (millions)	279	279
Diluted earnings per share (in EUR)	(0.86)	(0.92)
- of which, related to continuing operations	*(0.97)*	*(1.00)*
- of which, related to discontinued operations	*0.11*	*0.08*

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6. Note on off-balance sheet items

6.1. Regular way trade

	31/12/2017	31/12/2018	
(in EUR million)		Continuing operations	Activities held for sale
Liabilities to be received	1,151	102	27

6.2. Guarantees

	31/12/2017	31/12/2018	
(in EUR million)		Continuing operations	Activities held for sale
Guarantees given to credit institutions	397	340	
Guarantees given to customers	936	504	12
Guarantees received from credit institutions	250	328	
Guarantees received from customers	4,594	3,072	
Guarantees received from the States	67,623	65,493	

6.3. Loan commitments

	31/12/2017	31/12/2018	
(in EUR million)		Continuing operations	Activities held for sale
Unused lines granted to credit institutions	10	9	
Unused lines granted to customers	1,045	784	
Unused lines granted from credit institutions	4,453	4,747	
Unused lines granted from customers	807	778	

6.4. Other commitments

	31/12/2017	31/12/2018	
(in EUR million)		Continuing operations	Activities held for sale
Financial instruments given as collateral and other commitments given	65,977	49,576	27
Financial instruments received as collateral other commitments received	13,067	11,271	

7. Note on risk exposure

(some amounts may not add up due to roundings off)

7.0. Risk exposure and hedging strategy

We refer to chapter Risk Management of Management Report, pages 19 to 30.

7.1. Fair value

a. Fair value measurement and fair value hierarchy of financial instruments

We refer to note 1.1 Accounting policies and valuation methods, paragraph 1.1.7. Fair value of financial instruments.

b. Fair value

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

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

	31/12/2018			31/12/2018		
	Continuing operations			Activities held for sale		
(in EUR million)	Carrying amount	Fair value	Unrecognised fair value adjustment	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	9,269	9,269	0	234	234	0
Financial assets at amortised cost - Debt securities	45,128	38,657	(6,471)	2,789	2,736	(53)
Financial assets at amortised cost - Interbank loans and advances	23,654	23,813	159	2,354	2,366	12
Financial assets at amortised cost - Customer loans and advances	35,143	30,428	(4,715)	14,735	15,414	679
Interbank borrowings and deposits	20,930	20,216	(714)	1,065	1,067	2
Customer borrowings and deposits	4,873	4,818	(55)	2,139	2,141	2
Debt securities	67,959	68,219	259	16,614	16,706	92
Subordinated debt	126	125	(1)			

c. Methods used to determine the fair value of financial instruments

The following tables provide an analysis of the fair value of financial assets and financial liabilities, based on the degree to which the fair value is observable (Level 1 to 3). The fair value measurement is recurring for financial instruments at fair value. The non-recurring fair value measurement is not significant for Dexia Crédit Local.

In 2018 Dexia Crédit Local updated its methodology to classify debt instruments' levels. Regarding debt securities, the new methodology, among other criteria, incorporates two metrics provided by Bloomberg (FVHL service): the BVAL score which gives a measure of consistency of market inputs used to calculate a securities price and the BRAM scores which give metrics on the calculation of the BVAL score, e.g. the percentage of the BVAL score derived from direct and indirect market observations, the weighted standard deviation of direct executable market observations used in the BVAL score.

This methodology has led to a significant redistribution of Dexia's portfolio from level 3 to level 2 or 1 between 31 December 2017 and 31 december 2018. The main changes concern "loan and receivable" securities that were beforehand conservatively classed level 3 that are now level 1 and 2 according to the new decision tree.

Fair value of financial assets

	31/12/2017			
(in EUR million)	Level 1	Level 2	Level 3	Total
Cash and central banks	0	10,721	0	10,721
Financial assets at fair value through profit and loss	0	9,030	4,158	13,188
** Loans and securities held for trading*	*0*	*0*	*679*	*679*
** Derivatives held for trading*	*0*	*9,030*	*3,479*	*12,509*
Hedging derivatives	0	4,170	814	4,985
Financial assets available for sale	8,271	23	2,537	10,830
** Financial assets available for sale - bonds*	*8,190*	*12*	*2,440*	*10,642*
** Financial assets available for sale - equities*	*80*	*10*	*98*	*188*
Interbank loans and advances	0	2,271	3,663	5,934
Customer loans and advances	641	0	91,030	91,672
Financial assets held to maturity	1,563	0	365	1,928
Financial assets included in non current assets held for sale	253	711	1,127	2,092
TOTAL	**10,728**	**26,926**	**103,695**	**141,349**

Fair value of financial liabilities

	31/12/2017			
(in EUR million)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit and loss	0	10,277	3,915	14,192
** Financial liabilities designated at fair value*	*0*	*994*	*416*	*1,410*
** Derivatives held for trading*	*0*	*9,283*	*3,499*	*12,782*
Hedging derivatives	0	14,916	12,942	27,858
Interbank borrowings and deposits	0	18,126	13,627	31,753
Customer borrowings and deposits	0	1,118	5,337	6,455
Debt securities	0	68,764	21,470	90,234
Subordinated debt	0	0	161	161
Financial liabilities included in disposal groups held for sale	0	1,818	0	1,818
TOTAL	**0**	**115,017**	**57,452**	**172,469**

Fair value of financial assets

	31/12/2018			
(in EUR million)	Level 1	Level 2	Level 3	Total
Cash and central banks	0	9,269	0	9,269
Financial assets held for trading	0	6,386	3,772	10,158
** Derivatives*	*0*	*6,386*	*3,772*	*10,158*
Financial assets mandatorily at FVTPL	112	2,688	462	3,262
** Debt securities*	*28*	*30*	*194*	*252*
** Loans and advances*	*0*	*2,658*	*236*	*2,894*
** Equity instruments*	*84*	*0*	*32*	*116*
Hedging derivatives	0	962	301	1,263
Financial assets at fair value through OCI	1,975	2,810	75	4,860
** Debt securities*	*1,969*	*2,055*	*62*	*4,086*
** Loans and advances*	*0*	*727*	*9*	*736*
** Equity instruments designated at FVOCI*	*6*	*28*	*5*	*39*
Financial assets at amortised cost - Debt securities	21,528	15,611	1,517	38,657
Financial assets at amortised cost - Interbank loans and advances	550	21,571	1,691	23,813
Financial assets at amortised cost - Customer loans and advances	0	22,623	7,805	30,428
Financial assets included in non current assets held for sale	1,611	18,691	4,457	24,758
TOTAL	**25,776**	**100,611**	**20,081**	**146,469**

Detail of fair value of financial assets included in non current assets held for sale

(in EUR million)	31/12/2018 Level 1	Level 2	Level 3	Total
Cash and central banks	0	234	0	234
Financial assets held for trading	0	195	0	195
** Derivatives*	*0*	*195*	*0*	*195*
Financial assets mandatorily at FVTPL	32	438	61	531
** Debt securities*	*32*	*134*	*45*	*211*
** Loans and advances*	*0*	*304*	*17*	*320*
Hedging derivatives	0	2,914	245	3,159
Financial assets at fair value through OCI	0	0	122	122
** Loans and advances*	*0*	*0*	*122*	*122*
Financial assets at amortised cost - Debt securities	1,579	1,150	8	2,736
Financial assets at amortised cost - Interbank loans and advances	0	0	2,366	2,366
Financial assets at amortised cost - Customer loans and advances	0	13,760	1,655	15,414
TOTAL	**1,611**	**18,691**	**4,457**	**24,758**

Fair value of financial liabilities

(in EUR million)	31/12/2018 Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit and loss	0	7,441	4,431	11,872
** Financial liabilities designated at fair value*	*0*	*1,065*	*0*	*1,065*
** Trading derivatives*	*0*	*6,376*	*4,431*	*10,807*
Hedging derivatives	0	10,587	10,564	21,151
Interbank borrowings and deposits	255	7,674	12,286	20,216
Customer borrowings and deposits	0	3,807	1,011	4,818
Debt securities	0	53,573	14,645	68,219
Subordinated debt	0	0	125	125
Financial liabilities included in disposal groups held for sale	0	3,432	20,709	24,141
TOTAL	**255**	**86,515**	**63,771**	**150,541**

Detail of fair value of financial liabilities included in disposal groups held for sale

(in EUR million)	31/12/2018 Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit and loss	0	378	147	524
** Trading derivatives*	*0*	*378*	*147*	*524*
Hedging derivatives	0	3,054	649	3,703
Interbank borrowings and deposits	0	0	1,067	1,067
Customer borrowings and deposits	0	0	2,141	2,141
Debt securities	0	0	16,706	16,706
TOTAL	**0**	**3,432**	**20,709**	**24,141**

d. Transfer between level 1 and level 2

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

(in EUR million)	31/12/2017 From 1 to 2	From 2 to 1(1)
Financial assets available for sale - bonds		136
TOTAL FINANCIAL ASSETS	**0**	**136**
TOTAL FINANCIAL LIABILITIES	**0**	**0**

(1) of which EUR 50 million for Dexia Israel, presented in Non current assets held for sale

The amounts of transfers between levels are the amounts of fair value of financial instruments at the closing date.
There were no transfers between level 1 and level 2 as at 31 December 2018.

e. Level 3 reconciliation

(in EUR million)	2017 Opening balance	Trans-fers in Non current assets held for sale	Total gains/ losses in P&L	Unrea-lised or deferred gains/ losses	Purchase	Sale[(1)]	Settle-ment	Transfer into level 3[(2)]	Transfer out of level 3[(2)]	Other move-ments[(3)]	Closing
Loans and securities held for trading	1,365		24			(610)	(43)			(57)	679
Derivatives held for trading	4,162		(596)					11	(4)	(93)	3,479
Hedging derivatives	1,354		(479)	22			(8)	1	(43)	(33)	814
Financial assets available for sale - bonds	2,479	(48)	(65)	91		(185)	(298)	780	(149)	(165)	2,440
Financial assets available for sale - equities	115		(3)	(1)		(5)	(4)			(5)	97
Financial assets at fair value included in non current assets held for sale	0	48	13	3	1			3	(65)		4
TOTAL FINANCIAL ASSETS	**9,475**	**0**	**(1,106)**	**115**	**1**	**(799)**	**(352)**	**795**	**(261)**	**(354)**	**7,513**
Financial liabilities designated at fair value	520		(35)	34			(43)			(60)	416
Derivatives held for trading	4,329		(1,231)		597			3	(5)	(194)	3,499
Hedging derivatives	15,318		(1,489)		2			14	(284)	(618)	12,942
TOTAL FINANCIAL LIABILITIES	**20,166**		**(2,756)**	**34**	**599**		**(43)**	**17**	**(289)**	**(872)**	**16,856**

(1) Loans and securities held for trading: Dexia Crédit Local sold some of its Negative Basis Trade.
(2) Transfers between levels result from the variation of the BVAL score (Bloomberg valuation).
(3) Other movements include notably exchange differences for companies in euro and translation differences for companies in foreign currencies. On the assets side, they amount to EUR -195 million in result and to EUR -159 million recognised in Unrealised or deferred gains and losses through equity. On the liabilities side, they amount to EUR -811 million recognised in result and to EUR -59 million recognised in Unrealised or deferred gains or losses through equity.

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

(in EUR million)	2018 Opening balance	Trans-fers in non current assets held for sale	Total gains/ losses in P&L	Unrea-lised or deferred gains/ losses	Purchase	Sale	Settle-ment	Transfer into level 3	Transfer out of level 3	Other move-ments[(1)]	Closing
Non-trading financial assets mandatorily at fair value through profit or loss											
Debt securities	*662*	*(343)*	*(46)*				*(24)*		*(58)*	*2*	*194*
Loans and advances	*1,174*	*(366)*	*(33)*				*(388)*		*(149)*		*236*
Equity instruments	*67*		*(4)*				*(32)*			*2*	*32*
Trading derivatives	3,422		87					229		33	3,772
Hedging derivatives	850	(317)	(67)	(18)				36	(186)	3	301
Financial assets at fair value through other comprehensive income											
Debt securities	*5,699*		*(3)*			*(1,593)*	*(15)*		*(4,144)*	*118*	*62*
Loans and advances	*139*	*(133)*					*(2)*	*5*			*9*
Equity instruments	*6*									*(1)*	*5*
Financial assets at fair value included in non current assets held for sale		1,159	(91)				(32)		(608)		428
TOTAL FINANCIAL ASSETS	**12,019**	**0**	**(156)**	**(18)**	**0**	**(1,593)**	**(493)**	**270**	**(5,145)**	**156**	**5,039**
Derivatives held for trading	4,342	(199)	(202)		5			462	(12)	36	4,431
Hedging derivatives	12,099	(636)	(1,110)	(94)				200		104	10,564
Financial liabilities at fair value included in disposal groups held for sale		835	118	2					(160)		795
TOTAL FINANCIAL LIABILITIES	**16,441**	**0**	**(1,194)**	**(92)**	**5**			**662**	**(172)**	**140**	**15,790**

(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 +101 million in result and to EUR +57 million recognised in Unrealised or deferred gains and losses through equity. *On the liabilities side, they amount to EUR +140 million recognised in result.*

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

f. Sensitivity of the fair value of level 3 financial instruments to reasonably possible alternative assumptions

Dexia Crédit Local measures the fair value of the level 3 financial instruments using some unobservable inputs. As this unobservable character injects a certain degree of uncertainty into the valuation, an analysis of the fair value sensitivity of Level 3 instruments to alternative assumptions was performed as at 31st December 2018. The sensitivity analysis has been conducted using reasonably possible inputs or applying assumptions in line with the valuation adjustment policies for the financial instruments in question.

The table hereunder summarizes the financial assets and liabilities classified as Level 3 for which alternative assumptions in one or more unobservable inputs would lead to a significant variation in fair value.

(in EUR million)

Financial instruments	Non observables inputs	Alternative assumptions		Impacts on fair value measurement	
		Worst case	Best case	Worst case	Best case
Bonds	Credit spread	+/- one standard deviation		(2.3)	2.3
Loans	Credit spread	0 bp	345 bps	(23.5)	11.4
CDS	Credit spread	+/- one standard deviation		(17.8)	16.8
Derivatives	Interest Rate	+/- one standard deviation		(19.8)	19.8
	Spread of CBS	+/- one standard deviation		(10.9)	10.9
	Inflation	+/- one standard deviation		(3.4)	3.4
TOTAL				**(77.7)**	**64.6**

The unobservable input in the valuation of bonds and credit derivatives (CDS) classified in level 3 is the credit spread. The alternative assumptions used to measure the fair value sensitivity of those financial instruments are based on the dispersion of the spreads used for their valorisation, and consist of applying a shock of +/- one standard deviation to the credit spreads. The sensitivity of the bonds' fair value is estimated to range from EUR -2.3 million (reflecting a deterioration in the above-mentioned inputs) to EUR +2.3 million (reflecting an improvement in the above-mentioned inputs), while the sensitivity of the CDS' fair value is estimated to range from EUR -17.8 million EUR in the adverse scenario to EUR +16.8 million in the favorable scenario.

For the loans classified in level 3, the alternative assumptions consist in using the minimum and maximum spreads observed when valuating similar assets by Dexia Crédit Local. The impact of those alternative assumptions is estimated to EUR -23.5 million for the worst case scenario to EUR +11.4 million for the best case scenario.

For level 3 derivatives, the unobservable market inputs are mainly the interest rate, the inflation and the currency basis spreads (CBS). The alternative assumptions used by Dexia Crédit Local are based on the dispersion of available market data by risk factor and pillar. The sensitivity of each derivative is then determined for a variation of +/- one standard deviation in these inputs. The total impact on the fair value is estimated to range between EUR -34.1 million for the worst case scenario and EUR +34.1 million for the best case scenario.

In 2017, tests have been performed on all bonds and CDS classified in level 3. The main impacts are the following:

• For level 3 bonds in AFS, the sensitivity of the AFS reserve to alternative assumptions is estimated to vary between EUR -17 million (negative impact) and EUR +17 million (positive impact) for 2017.

• For level 3 bonds in the trading portfolio (Trading), the sensitivity of the variation in market value to alternative assumptions is estimated to vary between EUR -9 million (negative impact) and EUR +9 million (positive impact) for 2017. Bonds of this category are mostly components of NBT.

• The impact of the credit spreads alternative assumptions on Dexia Crédit Local's credit derivatives is estimated at EUR 15.5 million (positive scenario) versus EUR -15.8 million (negative scenario) before tax. It is to be noted that certain CDS are part of NBT.

g. Difference between transaction prices and modelled values (deferred day one profit)

No amount was booked as deferred DOP.

7.2. Credit risk exposure

The Exposure at Default (EAD) is one of the parameters used to calculate capital requirements under the Regulation (EU) No 575/2013.

It corresponds to the best estimate of credit risk exposure at default and the definition varies depending on the approach adopted in calculating capital requirements. The Dexia Crédit Local Group uses both the standard and the advanced approach to calculate its risk-weighted assets.

• For financial assets measured at amortised cost, the EAD of a credit exposure on the balance sheet corresponds to the book value, gross of impairments, taking account of accrued interest and the impact of hedge accounting;

• For financial assets measured at fair value, the EAD of a credit exposure on the balance sheet corresponds to the carrying amount before impairments;

• For derivatives, the EAD is calculated using the mark-to-market valuation method under Article 274 of the Regulation (EU) No 575/2013 and includes the replacement cost as well as the amount representing future potential exposure, obtained by the product of the notional amount and a coefficient depending on the type of derivative and its residual term;

• For off-balance-sheet commitments, the EAD represents the product of the (nominal) amounts of commitments and a Credit Conversion Factor (CCF). The Dexia Crédit Local Group applies the standard method (Article 111 of the Regulation (EU) No 575/2013) to determine credit conversion factors, except for project finance transactions (advanced approach).

In addition, as information relating to credit risk only concerns financial instruments generating credit risk exposure, the Dexia Crédit Local Group has decided to exclude from the scope of this report the other assets, mainly accruals and other assets.

As at 31 December 2018, the credit risk exposure amounts to EUR 123 billion of which EUR 19 billion in *Non current assets held for sale*.

a. Concentration by credit risk

Concentration by geographic region

(in EUR million)	31/12/2017	31/12/2018 Continuing operations	31/12/2018 Activities held for sale (DKD)
France	28,198	22,216	54
Belgium	1,623	515	1,418
Germany	17,835	1,909	14,805
Greece	88	78	0
Ireland	10	7	0
Italy	22,993	20,974	837
Luxembourg	35	48	0
Spain	10,010	7,294	28
Portugal	3,891	4,185	235
Hungary	2	2	0
Austria	1,058	10	1,014
Central and Eastern Europe	954	888	0
The Netherlands	71	49	26
Scandinavian countries	528	198	20
Great Britain	22,175	21,061	53
Switzerland	357	353	0
Turkey	169	0	0
United States	17,439	14,842	152
Canada	2,071	1,882	0
South and Central America	430	345	0
Southeast Asia	439	202	0
Japan	6,143	5,459	0
Israel	2,083	7	0
Other(1)	2,806	1,802	267
TOTAL	**141,406**	**104,324**	**18,908**

(1) This item includes supranational entities.

Concentration by sector of the counterparty

(in EUR million)	31/12/2017 Continuing activities	31/12/2017 Activities held for sale (Dexia Israel)	31/12/2018 Continuing operations	31/12/2018 Activities held for sale (DKD)
Central governments	28,725	979	25,329	1,666
Local public sector(1)	74,564	1,045	49,138	16,663
Financial institutions	13,126	9	9,871	557
Corporates	5,757	35	5,718	0
Monoline	1,481		1,471	0
ABS/MBS	4,183		2,657	9
Project finance	11,482	20	10,139	14
TOTAL	**139,318**	**2,088**	**104,324**	**18,908**

(1) As at 31/12/2018, this category includes, for continuing activities: EUR 1 million on Greece, EUR 1 million on Hungary, EUR 8,993 million on Italy, EUR 1,357 million on Portugal and EUR 4,145 million on Spain and as at 31/12/2017, this category includes: EUR 3 million on Greece, EUR 2 million on Hungary, EUR 9,739 million on Italy, EUR 1,698 million on Portugal and EUR 5,489 million on Spain.

Exposure by credit rating grades

The credit quality of financial assets is measured by reference to internal (Basel II standard) or external ratings. Indeed, Dexia Crédit Local applies the AIRBA (Advanced Internal Ratings Based Approach) for the calculation of capital requirements for credit risk within the context of Pillar I of Basel, except for ABS positions for which credit risk is calculated within the Ratings based Approach, based on external ratings (Fitch, Standard &Poors or Moody's) and for part of its portfolio where credit risk exposure is calculated in accordance with the Basel Standard Method.

(in EUR million)	31/12/2017 AAA to AA-	A+ to BBB-	Non investment grade	Unrated	Total
Financial assets available for sale (excluding variable income securities)	1,795	8,762	85	0	10,642
Financial assets held for trading (excluding variable income securities)	0	649	30	0	679
Derivatives held for trading	170	3,419	552	0	4,141
Hedging derivatives	8	647	31	0	686
Financial assets held to maturity	0	1,750	0	0	1,750
Loans and advances (at amortised cost)	47,944	54,772	10,836	550	114,102
Loans commitments granted	453	224	31	12	720
Guarantee commitments granted	214	4,485	94	4	4,796
Financial assets included in non current assets held for sale	6	1,912	157	14	2,088
TOTAL	**50,590**	**76,618**	**11,817**	**580**	**139,605**

Exposure at Default (EAD) by credit rating grades

The tables below show the exposure in case of default of financial assets subject to an ECL impairment model introduced by IFRS 9 (see 1.1.6.2.5 Impairment on financial assets).

The exposures are classified depending on the evolution of credit risk since initial recognition: exposures without significant deterioration in credit quality since initial recognition are allocated in Stage 1, exposures with significant deterioration in credit quality since initial recognition but that do not have objective evidence of a credit loss are allocated in Stage 2 and defaulted exposures are allocated in Stage 3.

Exposure at Default (EAD) by credit rating grades - continuing operations

EAD	31/12/2018											
	AAA to AA-			A+ à BBB-			Non investment grade			Unrated		
(in EUR million)	Stage 1	Stage 2(1)	Stage 3(1)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Central governments	9,989	38		12,232	2,765			114				
Local public sector	13,539	80	2	17,271	6,362	43	47	7,181	646	34	202	2
Financial institutions	334			4,288	131		8					
Corporates				5,342	149	1	12	20	5			
Monolines				703	715	53						
ABS/MBS	2,086	189		117	95	49	52		20	43		
Project finance	12			6,124	554		87	1,333	504			

(1) The rating takes into account the effects of credit risk mitigations. Exposures (EAD) in stage 2 or stage 3 may have rating grades AAA to AA-, due to the effect of the guarantees.

Exposure at Default (EAD) by credit rating grades - activities held for sale

EAD	31/12/2018											
	AAA to AA-			A+ to BBB-			Non investment grade			Unrated		
(in EUR million)	Stage 1	Stage 2(1)	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Central governments	542	75		865	60							
Local public sector	15,246	373		510	50			125			4	
Financial institutions	157			37	99							
ABS/MBS	9											
Project finance					14							

(1) The rating takes into account the effects of credit risk mitigations. Exposures (EAD) in stage 2 or stage 3 may have rating grades AAA to AA-, due to the effect of the guarantees.

Purchased or originated credit impaired debt instruments - continuing operations

(in EUR million)	31/12/2018 AAA to AA-	Non investment grade
Local public sector	23	62

b. Credit risk exposure (EAD) by class of financial instruments

	31/12/2017					
	Continuing operations			Activities held for sale (Dexia Israel)		
(in EUR million)	Credit risk exposure before financial effect of the collateral	Financial effect of the collateral	Credit risk exposure	Credit risk exposure before financial effect of the collateral	Financial effect of the collateral	Credit risk exposure
Financial assets available for sale (excluding variable income securities)	10,642		10,642	140		140
Financial assets held for trading (excluding variable income securities)	679		679			
Derivatives held for trading	6,281	2,003	4,278			
Hedging derivatives	1,693	1,007	686			
Financial assets held to maturity	1,750		1,750	136		136
Loans and advances (at amortised cost)	117,606	1,866	115,740	1,812		1,812
Loans commitments granted	723		723			
Guarantee commitments granted	36,032	31,212	4,820			
TOTAL	**175,407**	**36,089**	**139,318**	**2,088**		**2,088**

Dexia Crédit Local holds financial collaterals composed of cash collaterals and term deposits, and to a lesser extent, of investment grade bonds (mainly AAA- AA sovereign or banking issuers).
Only financial collaterals eligible under Basel and directly held by Dexia Crédit Local are considered.
Credit risk exposure is presented gross of specific impairment. The amount of specific impairment by class of financial instruments is presented in the note 2.12 *Quality of financial assets.*

	31/12/2018					
	Continuing operations			Activities held for sale (DKD)		
(in EUR million)	Credit risk exposure before financial effect of the collateral	Financial effect of the collateral	Credit risk exposure	Credit risk exposure before financial effect of the collateral	Financial effect of the collateral	Credit risk exposure
a) Assets not subject to impairment						
Non trading financial assets mandatorily at FVTPL	3,161		3,161	531		531
Trading derivatives	5,520	1,673	3,847	89	60	29
Hedging derivatives	667	158	509	1,337	1,176	161
b) Assets subject to impairment						
Financial assets at fair value through OCI (excluding variable income securities)	4,825		4,825	122		122
Financial assets at amortised cost	88,983	1,027	87,955	18,005		18,005
c) Off balance sheet items						
Loans commitments granted	550		550			
Guarantee commitments granted	22,830	19,352	3,477	59		59
TOTAL	**126,534**	**22,210**	**104,324**	**20,144**	**1,235**	**18,908**

Dexia Crédit Local holds financial collaterals composed of cash collaterals and term deposits, and to a lesser extent, of investment grade bonds (mainly AAA- AA sovereign or banking issuers). The quality of collaterals remained unchanged in 2018.
Only financial collaterals eligible under Basel and directly held by Dexia Crédit Local are considered.
Credit risk exposure is presented gross of specific impairment. The amount of specific impairment by class of financial instruments is pressented in the note 2.12 *Quality of financial assets.*

c. Forbearance

Regarding Dexia activities, restructured loans include 3 different types of restructuring:

1. Restructuring related to commercial relationships with customers, which represented almost all restructuring until 2011;
2. Restructuring related to litigations, mainly on structured loans, with customers without any financial difficulties;
3. Restructuring related to financial difficulties of the counterparty both under normal relationship or under litigations.

In accordance wih the EBA's definition of Forbearance, only the 3rd case is considered as forborne loan in the context of this analysis. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments.

As at 31 December 2018, total restructured loans related to financial difficulties of debtors was EUR 614 million (of which 50 million for DKD) against EUR 1,078 million (of which EUR 3 million for Dexia Israel) as at 31 December 2017.

The decrease is the result of the sale of some exposures and of the exit from forborne status.

d. Collateral and other credit enhancements obtained by taking possession of collateral during the period

There are no assets of this type in 2018 nor in 2017.

e. Movements on impairment on financial assets

	2017							
(in EUR million)	**As at 1 Jan.**	**Additions[(1)]**	**Reversal[(1)]**	**Utilisations**	**Other adjustments[(2)]**	**As at 31 Dec.**	**Recoveries directly recognised in profit or loss**	**Charge-offs directly recognised in profit or loss[(1)]**
Specific impairment	**(368)**	**(90)**	**140**	**3**	**15**	**(299)**		**(92)**
Customer loans and advances	(319)	(89)	140		12	(256)		(92)
Available for sale securities	(47)	(1)		3	3	(42)		
Variable revenue instruments	*(47)*	*(1)*		*3*	*3*	*(42)*		
Accruals and other assets	(2)					(1)		
Collective impairment	**(413)**	**(64)**	**136**		**14**	**(327)**		
Interbank loans and advances	(38)	(3)	22			(18)		
Customer loans and advances	(376)	(61)	114		14	(308)		
TOTAL	**(781)**	**(154)**	**276**	**3**	**29**	**(626)**		**(92)**

(1) Following the disposal of some of the exposures on Puerto Rico, reversals of specific impairment have been booked for CVEUR 40 million and an amount of charge-offs has been recognised directly in profit or loss for CVEUR 60 million; also, an additional provision of CVEUR 38 million was booked on the residual exposures on public entities related to the Commonwealth of Puerto Rico.
(2) Other adjustments include notably the impact of changes in exchange rates during the year.

(in EUR million)	2018						
	As at 1 Jan.	Transfers in non current assets held for sale	Transfers between stages[3]	Decreases due to derecognition	Changes due to change in credit risk[1][3]	Other adjustments[2]	As at 31 Dec.
Allowances for financial assets without increase in credit risk since initial recognition (Stage 1)	**10**	**(1)**			**(4)**		**5**
Financial assets at amortised cost	**7**	**(1)**			**(2)**		**4**
- Interbank debt securities	2				(2)		0
- Customer debt securities	3						3
- Customer loans and advances	2	(1)					1
Financial assets at fair value through other comprehensive income	**3**				**(2)**		**1**
- Debt securities	3				(2)		1
Allowances for financial assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	**497**	**(32)**	**(8)**	**(1)**	**(149)**	**31**	**337**
Financial assets at amortised cost	**489**	**(32)**	**(8)**		**(146)**	**31**	**333**
- Interbank debt securities	24	(1)			(5)	1	19
- Customer debt securities	309	(28)	(3)		(86)	30	223
- Interbank loans and advances	2				(1)		2
- Customer loans and advances	153	(3)	(5)		(55)		90
Financial assets at fair value through other comprehensive income	**8**			**(1)**	**(3)**		**4**
- Debt securities	6				(3)		2
- Customer loans and advances	3			(1)			2
Allowances for credit-impaired debt instruments (Stage 3)	**233**		**9**	**(1)**	**38**	**13**	**291**
Financial assets at amortised cost	**230**		**9**	**(1)**	**36**	**7**	**280**
- Customer debt securities	64				26	3	93
- Customer loans and advances	164		9	(1)	10	3	186
Financial assets at fair value through other comprehensive income	**1**				**0**		**1**
- Customer loans and advances	1				(1)		1
Other accounts receivable	**1**				**3**	**6**	**10**
Allowances for purchased or originated credit impaired debt instruments	**13**				**(6)**		**7**
Financial assets at amortised cost	**13**				**(6)**		**7**
- Customer loans and advances	13				(6)		7
TOTAL ALLOWANCES FOR FINANCIAL ASSETS	**752**	**(33)**	**1**	**(1)**	**(120)**	**44**	**640**

Provisions on commitments and financial guarantees given							
– on commitments and financial guarantees given (Stage 2)	7				(4)		2
– on commitments and financial guarantees given (Stage 3)	6						6
TOTAL PROVISIONS ON COMMITMENTS AND FINANCIAL GUARANTEES GIVEN	**13**				**(4)**		**9**

(1) During 2018, the allowances on debt instruments in stage 2 decreased by EUR 149 million, notably thanks to the improvement of the credit rating of the Portugese sovereign (EUR 54 million) and also as a consequence of the transfer to stage 3 of some exposures on american local public sector (EUR 21 million). The allowances on credit-impaired debt instruments increased by EUR 38 million. They include among others an allowance on the Chicago Board of Education (EUR 83 million) and reversal of allowances following the sale of the exposures related to the Commonwealth of Puerto Rico (EUR -37 million) and the redemption of debts associated with the Bulgarian railway sector (EUR -21 million).
(2) Other adjustments include notably the impact of changes in exchange rates during the year.
(3) Those amounts are reported in the statement of income.

In 2018, there were no recoveries directly recognised in profit or loss nor charge-offs directly recognised in profit or loss.

f. Purchased or originated credit impaired assets

	Undiscounted expected credit losses at initial recognition recognised during the period
(in EUR million)	2018
Financial assets at amortised cost	(13)

g. Reconciliation of gross carrying variation

(in EUR million)	2018									
	As at 1 Jan.	Transfers in non current assets held for sale	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3		Other variations	As at 31 Dec.
			To stage 2 from stage 1	To stage 1 from stage 2	To stage 3 from stage 2	To stage 2 from stage 3	To stage 3 from stage 1	To stage 1 from stage 3		
Financial assets at amortised cost	**135,530**	**(22,653)**							**(8,340)**	**104,537**
- Debt securities	50,247	(3,008)							(1,773)	45,466
** stage 1[(1)]*	*37,728*	*(2,581)*	*(683)*	*315*					*(1,606)*	*33,173*
** stage 2*	*12,336*	*(427)*	*683*	*(315)*	*(367)*				*(72)*	*11,838*
** stage 3*	*183*				*367*				*(95)*	*455*
- Interbank loans and advances	30,593	(3,739)							(3,194)	23,660
** stage 1[(2)]*	*30,251*	*(3,702)*							*(3,088)*	*23,462*
** stage 2*	*342*	*(37)*							*(106)*	*199*
- Customer loans and advances	54,690	(15,906)							(3,373)	35,410
** stage 1[(3)]*	*44,040*	*(15,133)*	*(179)*	*1,828*			*(27)*		*(2,833)*	*27,695*
** stage 2*	*9,877*	*(698)*	*179*	*(1,828)*	*(121)*				*(493)*	*6,917*
** stage 3*	*773*	*(75)*			*121*		*27*		*(47)*	*798*
Financial assets at FVOCI	**11,608**	**(133)**							**(6,648)**	**4,827**
- Debt securities	8,458								(4,369)	4,089
** stage 1[(4)]*	*7,299*								*(3,881)*	*3,418*
** stage 2*	*1,155*								*(489)*	*666*
** stage 3*	*5*									*4*
- Customer loans and advances[(5)]	3,150	(133)							(2,278)	739
** stage 1*	*2,664*	*(133)*	*(16)*	*33*					*(2,142)*	*404*
** stage 2*	*483*		*16*	*(33)*					*(134)*	*333*
** stage 3*	*3*								*(1)*	*1*
Other accounts receivable	**99**	**(5)**							**(12)**	**81**
** stage 1*	*97*	*(5)*							*(21)*	*70*
** stage 2*	*1*									*1*
** stage 3*	*1*								*9*	*10*

(1) Decrease by EUR 1,606 million partly due to the sale of Italian and US public sector securities
(2) Decrease by EUR 3,088 million: mainly due to the decrease of cash collateral paid (EUR 2,744 million)
(3) Decrease by EUR 2,833 million among which an amount around EUR 500 million of French public sector loans included in two portfolios of receivables sold following a call for tenders from investors. These sales related to a total outstanding of EUR 1.1 billion concerning 186 loans.
(4) Decrease by EUR 3,881 million due to the sale of Spanish covered bonds, US student loans and of exposures related to the Japanese sovereign and local public sector.
(5) Decrease by EUR 2,278 million mainly explained by the sale of social housing loans in France for an amount of EUR 796 million and by the sale of French public sector loans. An amount of around EUR 600 million of the total outstanding sold of EUR 1.1 billion is included here. Sales of Spanish local public loans are also included here.

The transfers are those as at 31 December 2018.

h. Credit risk on loans and advances designated at fair value through profit or loss

Dexia Crédit Local no longer holds loans and advances designated at fair value through profit or loss.

i. Modified assets

Nil.

j. Written-off assets that are still subject to enforcement activity

Nil.

7.3. Collateral

a. Nature of the assets received as collateral if this collateral can be sold or repledged

(in EUR million)	31/12/2017		31/12/2018 - continuing operations	
	Fair values of collateral held	Fair value of collateral sold or repledged	Fair values of collateral held	Fair value of collateral sold or repledged
Debt securities	2,922	1,160	2,483	1,381
TOTAL	**2,922**	**1,160**	**2,483**	**1,381**

Collateral is obtained in connection with the repurchase agreement activities.

b. Financial assets pledged as collateral for liabilities or contingent liabilities

(in EUR million)	31/12/2017	31/12/2018 - continuing operations
Carrying amount of financial assets pledged as collateral for liabilities	84,112	67,950

The amount of EUR 68 billion in 2018 and of EUR 84 billion in 2017 represents the amount of liquidity paid over as collateral for derivatives and assets pledged as collateral for funding received from the Eurosystem, the European Investment Bank, agreements for the temporary lending of stocks or other secured funding. This amount includes neither the assets guaranteeing the covered bonds issued by Dexia Kommunalbank Deutschland (DKD) nor Dexia FP Holdings Inc.'s Guaranteed Investment Contracts (GICs). These assets are close to EUR 20.5 billion in 2018 (of which EUR 19 billion for DKD accounted for in non current assets held for sale). In 2017, they amounted to EUR 24 billion, in which EUR 22.5 billion for DKD.

7.4. Interest-rate repricing risk: breakdown by remaining maturity until next refixing interest rate

Demand deposits are reported in the "Demand"column, as the information presented below takes into account the current maturity until the next date on which interest rates are reset from an accounting standpoint, rather than assumptions based on observed behavioral data.

a. Analysis of assets

	31/12/2017									
(in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and central banks	560	10,161	0	0	0	0	0			10,721
Financial assets at fair value through profit or loss	0	554	3	24	2	0	816	11,790		13,188
of which Trading derivatives							*813*	*11,696*		*12,509*
Hedging derivatives							531	4,454		4,985
Financial assets available for sale	0	332	394	946	6,686	56	143	2,314	(42)	10,830
Interbank loans and advances	290	3,254	413	848	681	0	23	506	(18)	5,995
Customer loans and advances	6	18,985	21,375	6,702	33,056	0	785	18,570	(565)	98,914
Fair value revaluation of portfolio hedge								1,314		1,314
Financial assets held to maturity	0	17	27	30	1,639	0	37		0	1,750
Accruals and other assets	0	193	78	0	301	29,977	(1)	0	(1)	30,547
of which paid cash collateral						*29,989*	*(1)*			*29,989*
Non current assets held for sale	1,320	21	155	353	227	18	9	2	0	2,105
Subtotal financial assets used to calculate the gap	*2,177*	*33,516*	*22,445*	*8,903*	*42,591*	*30,034*				
Non-financial assets						85				85
TOTAL	**2,177**	**33,516**	**22,445**	**8,903**	**42,591**	**30,137**	**2,343**	**38,950**	**(626)**	**180,434**

b. Analysis of liabilities excluding shareholders' equity

(in EUR million)	31/12/2017 Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undeter-mined maturity	Accrued interest	Fair value adjust-ment	Total
Financial liabilities at fair value through profit and loss	0	95	0	75	906	0	717	12,400	14,192
of which Trading derivatives							*704*	*12,079*	*12,782*
Hedging derivatives							875	26,982	27,858
Interbank borrowings and deposits	280	29,086	1,156	653	517	0	52	15	31,760
Customer borrowings and deposits	314	4,786	770	175	346	0	13	22	6,426
Debt securities		18,692	15,545	34,451	16,817	0	619	3,531	89,654
Fair value revaluation of portfolio hedge								41	41
Subordinated debts	0	145	14	0	0	0	0	0	160
Accruals and other liabilities	1	301	54	13	36	3,525	0		3,931
of which received cash collateral						*3,524*	*0*		*3,524*
Liabilities included in disposal groups held for sale	1,106	146	196	324	112	1	10	0	1,894
Subtotal financial liabilities used to calculate the gap	*1,700*	*53,251*	*17,735*	*35,691*	*18,734*	*3,525*			
Non-financial liabilities						246			246
TOTAL	**1,700**	**53,251**	**17,735**	**35,691**	**18,734**	**3,772**	**2,288**	**42,991**	**176,162**

c. Balance-sheet sensitivity gap as at 31/12/2017

(in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity
	476	(19,735)	4,709	(26,788)	23,857	26,509

Balance-sheet sensitivity gap is hedged through derivatives.

a. Analysis of assets

(in EUR million)	31/12/2018 Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undeter-mined maturity	Accrued interest	Fair value adjust-ment	Impair-ment	Total
Cash and central banks	939	8,330	0	0	0	0	0			9,269
Financial assets at fair value through profit or loss	0	158	557	718	1,373	15	648	9,951		13,420
of which Trading derivatives							*619*	*9,539*		*10,158*
Hedging derivatives							222	1,040		1,263
Financial assets at fair value through OCI	0	653	1,479	515	1,776	0	44	399	(6)	4,860
Financial assets at amortised cost - Debt securities	12	5,334	8,730	1,475	18,637	0	370	10,908	(338)	45,128
Financial assets at amortised cost - Interbank loans and advances[(1)]	573	2	1,744	950	60	20,310	3	13	(2)	23,654
Financial assets at amortised cost - Customer loans and advances[(1)]	1	1,278	3,103	5,014	16,651	4,850	137	4,382	(272)	35,143
Fair value revaluation of portfolio hedge								748		748
Accruals and other assets	1	116	0	0	264	18			(10)	388
Continuing operations : subtotal financial assets used to calculate the gap	*1,527*	*15,871*	*15,613*	*8,671*	*38,762*	*25,193*	*1,425*	*27,440*	*(628)*	*133,874*
Non-financial assets						96				96
TOTAL CONTINUING OPERATIONS	**1,527**	**15,871**	**15,613**	**8,671**	**38,762**	**25,289**	**1,425**	**27,440**	**(628)**	**133,969**
Activities held for sale : financial assets included in non current assets held for sale - used to calctlate the gap	98	273	471	1,846	12,151	2,112	546	6,889	(4)	24,383
Non-financial assets - acitivities held for sale	0	0	0	0	0	4	0	0	0	4
TOTAL	**1,624**	**16,144**	**16,084**	**10,518**	**50,913**	**27,405**	**1,971**	**34,330**	**(632)**	**158,356**

(1) Paid cash collaterals are declared in undetermined maturity

b. Analysis of liabilities excluding shareholders' equity

	31/12/2018								
(in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Financial liabilities at fair value through profit and loss	0	0	37	15	793	0	572	10,454	11,872
of which Trading derivatives							*565*	*10,242*	*10,807*
Hedging derivatives							427	20,724	21,151
Financial liabilities at amortised cost - Interbank borrowings and deposits[1]	3,351	4,835	2,355	6,045	1,939	2,333	56	16	20,930
Financial liabilities at amortised cost - Customer borrowings and deposits[1]	256	4,331	168	0	34	85	(1)		4,873
Financial liabilities at amortised cost - Debt securities	0	9,321	19,464	27,480	10,921	0	393	380	67,959
Fair value revaluation of portfolio hedge								13	13
Subordinated debts	0	106	0	0	19	0	0		126
Accruals and other liabilities	2	306	17	11	33	31	0		400
Continuing operations : subtotal financial liabilities used to calculate the gap	*3,609*	*18,899*	*22,041*	*33,552*	*13,740*	*2,448*	*1,448*	*31,587*	*127,323*
Non-financial liabilities						254			254
TOTAL CONTINUING OPERATIONS	**3,609**	**18,899**	**22,041**	**33,552**	**13,740**	**2,702**	**1,448**	**31,587**	**127,577**
Activities held for sale : financial liabilities included in disposal groups held for sale - used to calculate the gap		726	2,929	5,222	6,671	1,235	518	6,746	24,048
Non-financial liabilities - activities held for sale						8			8
TOTAL	**3,609**	**19,625**	**24,970**	**38,773**	**20,411**	**3,945**	**1,966**	**38,333**	**151,632**

(1) Received cash collaterals are declared in undetermined maturity.

c. Balance-sheet sensitivity gap as at 31/12/2018

(in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity
Balance sheet sensitivity as at 31/12/2018 - continuing operations	(2,082)	(3,028)	(6,428)	(24,880)	25,022	22,745
Balance sheet sensitivity as at 31/12/2018 - activities held for sale	98	(453)	(2,458)	(3,376)	5,480	877
NET BALANCE SHEET SENSITIVITY GAP	(1,984)	(3,481)	(8,886)	(28,256)	30,502	23,622

Balance-sheet sensitivity gap is hedged through derivatives.

7.5 Sensitivity to interest rate risk and other market risks

We also refer to the chapter Risk Management of the Management Report.

a. Market risk

a. Risk measurement

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

- Value at Risk (VaR) measures the expected potential loss for a 99% confidence interval and for a ten-day holding period. Dexia Crédit Local relies on a VaR parametric to measure the market risk inherent in the various portfolios and activities. The method of this VaR is based on a normal distribution of yields relating to risk factors.
- Limits in terms of positions, maturity, market and authorised products are put in place per type of activity. They guarantee consistency between global risk limits and the operational thresholds used by the front office.
- The risk management system is completed by stress tests, which include events outside the probabilistic framework of VaR measurement techniques. The different assumptions of these degraded scenarios are regularly reviewed and updated. The consolidated stress test results and the corresponding analysis are presented to the Risk Committee on a quarterly basis.

Exposure to market risk

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

- Transactions initiated by financial instrument trading activities until the date on which the Group was placed in orderly resolution, mostly covered back-to-back;

- Transactions intended to hedge risks arising from disinvestments or asset sales within the framework of the orderly resolution plan.

The main risk factors of the trading portfolio are:

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

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

Value at Risk (VaR)

The detail of the VaR of the trading portfolios is presented in the following table. At the end of December 2018, total consumption in VaR was EUR 1.7 million against EUR 3.3 million at the end of 2017. This fall is explained in particular by the reclassification as at 1 January 2018 of residual positions of securities in the trading portfolio to the banking portfolio, setting the spread VaR to 0. It is to be noted that Dexia Kommunalbank Deutschland (DKD) has no trading portfolio.

Value at Risk of the trading portfolio 2017

(in EUR million) **VaR (10 days, 99%)**	Interest rate	Spread	Other risks	Total
Average	2.5	3.8	0.1	6.5
End of period	1.5	1.8	0.1	3.3
Maximum	3.0	4.2	0.1	7.3
Minimum	1.5	1.8	0.1	3.3

Value at Risk of the trading portfolio 2018

(in EUR million) **VaR (10 days, 99%)**	Interest rate	Spread	Other risks	Total
Average	1.5	0	0	1.5
End of period	1.7	0	0	1.7
Maximum	1.9	0	0	1.9
Minimum	1.2	0	0	1.2

Sensitivity of banking portfolios classified at fair value through equity to the evolution of credit spreads

With the entry into application of IFRS 9, the sensitivity to an increase of credit spreads in the income statement as well as the result directly recognised in equity evolved both in nature and in magnitude.

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

Under IFRS 9, the portfolio classified at fair value through equity consists of securities and loans and presents sharply reduced sensitivity to an increase of credit spreads. It was EUR -2.8 million as at 31 December 2018 (EUR -2.7 millions excluding discontinued operations – DKD). Furthermore, the portfolio classified at fair value through profit and loss in view of its "non-SPPI" nature, also consisting of securities and loans, presents a sensitivity to an increase of credit spreads of EUR -2.3 million as at 31 December 2018 (EUR -1.9 million excluding discontinued operations – DKD).

b. Transformation risk

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

Management of interest rate

Measurement of interest rate risk

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

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

The sensitivity of long-term ALM was EUR -14.1 million as at 31 December 2018, (EUR -15.2 million excluding discontinued operations – DKD), against EUR +13.9 million as at 31 December 2017. This is in line with the ALM strategy, which seeks to minimise net interest margin volatility.

(in EUR million)	2017	2018
Sensitivity	13.9	(14.1)
Limit	+/-80	+/-80

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7.6. Liquidity risk

A. Analysis by term to maturity

A large part of the balance sheet consists of the revaluation of assets, liabilities and derivatives. As such revaluations vary constantly and cannot therefore be linked to the maturity of the financial instruments, they are presented under a separate column.
Demand deposits and saving deposits are included in the "Demand" column, even though they have no fixed repayment date.

a. Analysis of assets

	31/12/2017									
(in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and central banks	560	10,161	0	0	0	0	0			10,721
Financial assets at fair value through profit or loss	0	5	5	39	534	0	816	11,790		13,188
of which Trading derivatives							*813*	*11,696*		*12,509*
Hedging derivatives							531	4,454		4,985
Financial assets available for sale	0	319	301	946	6,791	56	143	2,314	(42)	10,830
Interbank loans and advances	390	223	941	2,696	1,236	0	23	506	(18)	5,995
Customer loans and advances	3	950	3,410	12,403	63,356	0	785	18,570	(565)	98,914
Fair value revaluation of portfolio hedge								1,314		1,314
Financial assets held to maturity	0	17	27	30	1,639	0	37		0	1,750
Accruals and other assets	0	193	78	0	301	29,977	(1)	0	(1)	30,547
of which paid cash collateral						*29,989*	*(1)*			*29,989*
Non current assets held for sale	1,320	21	155	353	227	18	9	2	0	2,105
Subtotal financial assets used to calculate the gap	*2,273*	*11,891*	*4,917*	*16,467*	*74,083*	*30,034*				
Non-financial assets						85		0	0	85
TOTAL	**2,273**	**11,891**	**4,917**	**16,467**	**74,083**	**30,137**	**2,342**	**38,950**	**(626)**	**180,434**

b. Analysis of liabilities excluding shareholders' equity

	31/12/2017								
(in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Financial liabilities at fair value through profit and loss	0	0	12	49	1,014	0	717	12,400	14,192
of which Trading derivatives							*704*	*12,079*	*12,782*
Hedging derivatives							875	26,982	27,858
Interbank borrowings and deposits	280	12,445	5,580	10,626	2,762	0	51	15	31,759
Customer borrowings and deposits	314	4,786	619	169	504	0	13	22	6,426
Debt securities		10,204	20,296	37,624	17,380	0	619	3,531	89,654
Fair value revaluation of portfolio hedge								41	41
Subordinated debts	0	0	34	106	19	0	0	0	160
Accruals and other liabilities	1	293	62	13	36	3,525	0		3,931
of which received cash collateral						*3,524*	*0*		*3,524*
Liabilities included in disposal groups held for sale	1,106	146	196	324	112	1	10	0	1,894
Subtotal financial liabilities used to calculate the gap	*1,700*	*27,875*	*26,798*	*48,911*	*21,828*	*3,525*			
Non-financial liabilities						246			246
TOTAL	**1,700**	**27,875**	**26,798**	**48,911**	**21,828**	**3,772**	**2,287**	**42,991**	**176,162**

Net liquidity gap as at 31/12/2017 (in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity
	573	(15,984)	(21,881)	(32,444)	52,255	26,509

This table does not take into account the liquidity of the asset nor its eligibility for refinancing; some listed long-term assets may be sold or refinanced with central banks in case of need of liquidity.

a. Analysis of assets

(in EUR million)	31/12/2018									
	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and central banks	939	8,330	0	0	0	0	0			9,269
Financial assets at fair value through profit or loss		154	259	852	1,541	15	648	9,951		13,420
of which Trading derivatives							*619*	*9,539*		*10,158*
Hedging derivatives							222	1,040		1,263
Financial assets at fair value through OCI		298	265	685	3,175	0	44	399	(6)	4,860
Financial assets at amortised cost - Debt securities	12	56	608	3,429	30,082	0	370	10,908	(338)	45,128
Financial assets at amortised cost - Interbank loans and advances[1]	573	2	1,747	947	60	20,310	3	13	(2)	23,654
Financial assets at amortised cost - Customers loans and advances[1]	1	1,063	1,417	5,534	18,032	4,850	137	4,382	(272)	35,143
Fair value revaluation of portfolio hedge								748		748
Accruals and other assets	1	116	0	0	264	18	0		(10)	388
Continuing operations: Subtotal financial assets used to calculate the gap	*1,527*	*10,020*	*4,296*	*11,447*	*53,154*	*25,193*	*1,425*	*27,440*	*(628)*	*133,874*
Non-financial assets						96				96
TOTAL CONTINUING OPERATIONS	**1,527**	**10,020**	**4,296**	**11,447**	**53,154**	**25,289**	**1,425**	**27,440**	**(628)**	**133,969**
Activities held for sale: financial assets included in non current assets held for sale – used to calculate the gap	98	273	471	1,846	12,151	2,112	546	6,889	(4)	24,383
Non financial assets - activities held for sale	0				0	4	0	0	0	4
TOTAL	**1,624**	**10,293**	**4,767**	**13,293**	**65,306**	**27,405**	**1,971**	**34,330**	**(632)**	**158,356**

(1) Paid cash collaterals are declared in undetermined maturity.

b. Analysis of liabilities excluding shareholders' equity

(in EUR million)	31/12/2018								
	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Financial liabilities at fair value through profit and loss	0	3	37	11	794	0	572	10,454	11,872
of which Trading derivatives							*565*	*10,242*	*10,807*
Hedging derivatives							427	20,724	21,151
Financial liabilities at amortised cost - Debt securities	3,351	4,692	2,876	5,614	1,991	2,333	56	16	20,930
Financial liabilities at amortised cost - Interbank borrowings and deposits[1]	256	4,325	0	1	207	85	(1)	0	4,873
Financial liabilities at amortised cost - Customer borrowings and deposits[1]	0	9,563	17,851	28,834	10,938	0	393	380	67,959
Fair value revaluation of portfolio hedge								13	13
Subordinated debts	0	106	0	0	19	0	0		126
Accruals and other liabilities	2	306	17	11	33	31	0		400
Continuing operations : subtotal financial liabilities used to calculate the gap	*3,609*	*18,996*	*20,781*	*34,471*	*13,983*	*2,448*	*1,448*	*31,587*	*127,323*
Non-financial liabilities						254			254
TOTAL CONTINUING OPERATIONS	**3,609**	**18,996**	**20,781**	**34,471**	**13,983**	**2,702**	**1,448**	**31,587**	**127,577**
Activities held for sale: liabilities financial included in disposal groups held for sale used to calculate the gap	0	726	2,929	5,222	6,671	1,235	518	6,746	24,048
Non financial liabilities - activities held for sale						8			8
TOTAL	**3,609**	**19,721**	**23,711**	**39,693**	**20,654**	**3,945**	**1,966**	**38,333**	**151,632**

(1) Received cash collaterals are declared in undetermined maturity.

Net liquidity gap as at 31/12/2018 (in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity
Net liquidity gap as at 31/12/2018 - continuing operations	(2,082)	(8,976)	(16,486)	(23,025)	39,171	22,745
Net liquidity gap as at 31/12/2018 - activities held for sale	98	(453)	(2,458)	(3,376)	5,480	877
NET LIQUIDITY GAP AS AT 31/12/2018	(1,984)	(9,428)	(18,944)	(26,400)	44,651	23,622

This table does not take into account the liquidity of the asset nor its eligibility for refinancing; some listed long-term assets may be sold or refinanced with central banks in case of need of liquidity.

B. Steps taken to improve Dexia Crédit Local Group’s liquidity

Steps taken to improve Dexia Crédit Local Group’s liquidity are described in the Management Report, chapter "Information on capital and liquidity".

7.7. Currency risk

We also refer to Management Report, chapter Risk Management.

Classification by original currency	31/12/2017						
(in EUR million)	EUR	GBP	Other EU currencies	USD	JPY	Other currencies	Total
Total assets	121,527	23,475	68	22,921	6,893	5,550	180,434
Total liabilities and shareholders’ equity	122,756	22,402	41	25,695	5,036	4,505	180,434
NET BALANCE SHEET POSITION	(1,229)	1,074	26	(2,774)	1,857	1,046	0

Classification by original currency	31/12/2018						
(in EUR million)	EUR	GBP	Other EU currencies	USD	JPY	Other currencies	Total
Total assets	97,009	20,506	11	35,158	3,421	2,251	158,356
Total liabilities and shareholders’ equity	97,327	20,565	11	34,957	3,478	2,018	158,356
NET BALANCE SHEET POSITION	(318)	(59)	0	201	(57)	234	0

7.8. Hedge accounting

Derivatives Held for Risk Management and Hedge Accounting

Dexia Crédit Local aims to minimize balance sheet mismatches between assets and liabilities in order to ensure the stability of its income, notably against interest rate risk and foreign currency risk.

Dexia Crédit Local has recourse to hedge accounting when hedging specified financial assets or financial liabilities (“micro hedge”) or portfolios of fixed rate financial assets and portfolios of fixed rate financial liabilities (“macro hedge”) which are exposed to a change in fair value due to movements in benchmark interest rates.

The fair value of fixed rate bonds (asset side) and issuances (liability side) are commonly hedged at inception using derivatives, documented as Fair Value Hedge (FVH).

The residual interest rate risk exposure is notably linked to portfolios composed of long-dated amortizing fixed rate loans of small notional amounts. It is managed from a macro-hedge perspective, through a natural hedge between fixed rate assets and liabilities, and using interest rate derivatives, documented as portfolio Fair Value Hedges under IAS 39 “carve-out” standard as adopted by the European Union (“European Portfolio Hedge”, “EPH”).

Dexia Crédit Local also hedges the benchmark interest rate risk of a part of its future floating rate issuances using interest rate derivatives, documented as Cash Flow Hedge (CFH).

The foreign currency exposure arising from foreign currency denominated financial assets or liabilities are micro hedged by Dexia Crédit Local using cross currency swaps documented as Cash Flow Hedges (CFH) of foreign currency risk.

Moreover, some Fair Value Through P&L (FVTPL) assets are economically hedged by derivatives which are classified as Held for trading derivatives under IFRS but included in the banking book for prudential reporting (economic hedge). These are mainly derivatives which are hedging non SPPI financial assets classified at FVTPL under IFRS 9 and are no longer eligible as hedging instruments contrary to the treatment based on the classification of these assets under IAS 39. The volatility related to the interest risk of these assets is offset by the change in the fair value of the economic hedging derivatives but the volatility related to other risks and particularly credit risk remains.

As permitted by the transitional provisions of IFRS 9, Dexia Crédit Local maintained the current hedge accounting requirements of IAS 39 for all its micro and macro-hedge relationships until the future standard on macro-hedging is entered into force.

(i) Fair Value Hedge of Interest Rate Risk

Dexia Crédit Local uses interest rate swaps or cross currency interest rate swaps to hedge its exposure to changes in the fair values of fixed rate liabilities (notes issued measured at amortised cost) and fixed rate or structured SPPI assets (mainly bonds measured at amortised cost or fair value through other comprehensive income) in respect of a benchmark (floating) interest rate. Floating/fixed interest rate swaps or floating/structured interest rate swaps are matched to balance sheet items so as to closely align with the critical terms of the hedged item.

Only the benchmark interest rate risk component is hedged using these derivatives in fair value hedge relationship. Other risks, such as credit risk, are managed but not hedged by Dexia Crédit Local. The interest rate risk component is determined as the change in fair value of the fixed rate balance sheet items arising solely from changes in benchmark interest rate curves. Such changes are usually the largest component of the overall change in fair value.
A derivative designated as a hedging instrument must be highly effective both prospectively and retrospectively in offsetting changes in fair value or cash flows arising from the hedged risk. The effectiveness of the hedge is verified by comparing changes in fair value of the hedged items attributable to changes in the hedged benchmark rate of interest with changes in the fair value of derivatives, with the expected ratio between the two changes ranging from 80% to 125%.
The non-effective portion of the hedging relationship recognised in "Net result of hedge accounting" (see note 5.3. "Net gains (losses) on financial instruments at fair value through profit or loss") is mainly related to the difference in the discounting between the hedged item and the hedging instrument, as interest rate swaps are discounted using Overnight Index swaps (OIS) discount curves, while balance sheet item discounting is based on the benchmark interest rate documented in fair value hedge.
Changes in the fair value of derivatives in respect of Credit Valuation Adjustment (CVA), Debit Valuation Adjustment (DVA) and Funding Valuation Adjustment (FVA) are booked in the result of trading activities (see note 5.3. "Net gains (losses) on financial instruments at fair value through profit or loss").

(ii) Cash Flow Hedge of Interest Rate Risk and balance sheet items in foreign currencies
Dexia Crédit Local uses fixed/floating interest rate swaps to hedge the interest rate risks in respect of the benchmark interest rate (mainly Libor and Euribor), and cross currency swaps to hedge foreign currency risks (mainly US dollar and UK sterling) arising from its balance sheet items denominated in foreign currencies.
Cash Flow Hedge strategies are implemented:
– Either to transform non-EUR floating rate cash flows into EUR floating rate cash flows by the use of cross-currency swaps, so as to mitigate the existing Dexia Crédit Local's foreign currency exposure;
– Or to transform EUR floating rate cash flows into EUR fixed rate cash flows. Dexia Crédit Local hedges interest rate risk to the extent of benchmark interest rate exposure on its floating rate notes or its highly probable future floating rate issuances to mitigate variability in its cash flows.

Hedge accounting is applied where hedge relationships meet the hedge accounting criteria. Derivatives designated as hedging instruments must be highly effective both prospectively and retrospectively in offsetting changes in fair value or cash flows arising from the hedged risk. In addition, for cash flow hedges of its future floating rate issuances, Dexia Crédit Local demonstrates the highly probable nature of forecast cash flows.

(iii) Macro-hedging of Interest Rate Risk through European Portfolio Hedge (EPH)
Dexia Crédit Local applies fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities under IAS 39 "carve-out" standard as adopted by the European Union. The hedged risk corresponds to the exposure to changes in the fair value attributable to a benchmark interest rate risk, which is associated with a portfolio or an identified amount of a portfolio of financial assets or liabilities. Different categories of assets or liabilities and in particular loans or securities measured at amortised cost or fair value through other comprehensive income may be designated by Dexia Crédit Local as qualifying hedged items. Only vanilla interest rate swaps are used as hedging instruments.
Dexia Crédit Local demonstrates that a high degree of effectiveness exists both prospectively and retrospectively by periodically demonstrating that notional amounts on hedging derivatives and hedged items offset each other and no over-hedging situation exists.
As the exposure from the portfolio may change (for example due to a derecognition or modification of a hedged item or a hedging instrument), to avoid the situation of over-hedging, Dexia Crédit Local adjusts when needed the existing strategies by removing hedging instruments or by entering into new derivatives designated in EPH.

a. Hedging derivatives by risk category for each type of hedge - continuing operations

1. Detail of derivatives designated as fair value hedges

	31/12/2018			
	Notional amount	Assets - carrying amount	Liabilities - carrying amount	Change in fair value used for calculating hedge ineffectiveness
(EUR million)		Hedging derivatives	Hedging derivatives	
Interest rate derivatives	**73,522**	**917**	**18,808**	**1,313**
OTC options	34		4	1
OTC other	73,488	917	18,803	1,313
Foreign exchange derivatives	**6,412**	**66**	**758**	**(44)**
OTC other	6,412	66	758	(44)
TOTAL	**79,934**	**983**	**19,565**	**1,269**

2. Detail of derivatives designated as cash flow hedges

	31/12/2018			
	Notional amount	Assets - carrying amount	Liabilities - carrying amount	Change in fair value used for calculating hedge ineffectiveness
(EUR million)		Hedging derivatives	Hedging derivatives	
Interest rate derivatives	**1,099**	**15**	**225**	**51**
OTC other	1,099	15	225	51
Foreign exchange derivatives	**873**	**190**	**353**	**68**
OTC other	873	190	353	68
TOTAL	**1,972**	**206**	**578**	**118**

	31/12/2018
Amount removed from equity and included in the carrying amount of a non-financial instrument (in case of a cash flow hedge on a highly probable transaction)	Nil

3. Detail of derivatives designated in portfolio hedge of interest rate risk

	31/12/2018		
	Notional amount	Assets - carrying amount	Liabilities - carrying amount
(EUR million)		Hedging derivatives	Hedging derivatives
Portfolio fair value hedges of interest rate risk	**8,451**	**73**	**1,008**
TOTAL	**8,451**	**73**	**1,008**

4. Detail of derivatives designated as hedges of a net investment in a foreign entity

Nil.

b. Hedged items by risk category for each type of hedge - continuing operations

1. Fair value hedges

	31/12/2018			
(EUR million)	Carrying amount of the hedged item	Accumulated amount of hedge adjustments included in the carrying amount of assets/liabilities	Change in value of the hedged item used as the basis for recognising hedge ineffectiveness	Remaining adjustments for discontinued hedges
Financial assets at fair value through OCI	2,768	451	(509)	517
Interest rate risk	2,768	451	(509)	517
Financial assets at amortised cost - Debt securities	35,640	10,908	(280)	23
Interest rate risk	35,623	10,906	(280)	23
Foreign exchange risk	18	2		
Financial assets at amortised cost - Interbank loans and advances	111	13	(3)	
Interest rate risk	111	13	(3)	
Financial assets at amortised cost - Customer loans and advances	12,162	4,382	(590)	
Interest rate risk	12,162	4,382	(590)	
Debt securities	44,149	380	(21)	
Interest rate risk	44,149	380	(21)	
TOTAL (FINANCIAL ASSETS LESS FINANCIAL LIABILITIES)	**6,532**	**15,374**	**(1,361)**	**540**

2. Cash flow hedges

	31/12/2018		
(EUR million)	Change in value of the hedged item used as the basis for recognising hedge ineffectiveness	Cash flow hedge reserve	Cash flow hedge reserve for discontinued hedges
Financial assets at fair value through OCI	(43)	(2)	
Foreign exchange risk	*(43)*	*(2)*	
Financial assets at amortised cost - Debt securities	(4)	(140)	
Foreign exchange risk	*(4)*	*(140)*	
Financial assets at amortised cost - Customer loans and advances	(3)	(112)	49
Interest rate risk	*6*	*59*	
Foreign exchange risk	*(9)*	*(171)*	*49*
Interbank borrowings and deposits	28	(150)	
Interest rate risk	*19*	*(171)*	
Foreign exchange risk	*9*	*21*	
Customer borrowings and deposits	36	(166)	
Interest rate risk	*36*	*(166)*	
TOTAL (FINANCIAL ASSETS LESS FINANCIAL LIABILITIES)	**(113)**		
TOTAL		**(572)**	**49**

3. Hedge of a net investment in a foreign entity

Nil.

4. Portfolio fair value hedge of interest rate risk

	31/12/2018
(EUR million)	Carrying amount of the hedged item
Financial assets at fair value through OCI	590
Financial assets at amortised cost - Interbank loans and advances	5,423
Financial assets at amortised cost - Customer loans and advances	672
Interbank borrowings and deposits	98
Debt securities	409

c. Profile of timing of the nominal amount of the hedging instrument and average prices or rates - continuing operations

1. Derivatives designated as fair value hedges

	31/12/2018			
	Maturity			
(EUR million)	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Interest rate derivatives				
* Notional amount (in EUR million)	3,927	4,986	25,904	38,705
* Average fixed interest rate	1.97%	0.65%	1.44%	3.47%
Foreign exchange derivatives				
* Notional amount (in EUR million)	25		1,446	4,941
* Average EUR-USD exchange rate			1.2250	1.2591
* Average EUR-JPY exchange rate			108.7784	160.9227
* Average USD-JPY exchange rate			110.6120	115.5224
* Average USD-GBP exchange rate				0.5600
* Average fixed interest rate	1.29%		2.64%	3.29%

2. Derivatives designated as cash flow hedges

(EUR million)	31/12/2018 Maturity 3 months to 1 year	1 to 5 years	Over 5 years
Interest rate derivatives			
* Notional amount (in EUR million)	84	145	870
* Average fixed interest rate	3.72 %	1.78 %	3.93 %
Foreign exchange derivatives			
* Notional amount (in EUR million)	726		146
* Average EUR-GBP exchange rate	0.8006		
* Average USD-GBP exchange rate			0.5079

d. Impact of hedge accounting in the statement of comprehensive income

1. Fair value hedges

	31/12/2018	
	Hedge ineffectiveness recognised in P/L	Hedge ineffectiveness recognised in OCI
(EUR million)	Net gains (losses) on financial instruments at fair value through profit or loss	Gains and losses directly recognised in equity of the balance sheet
Interest rate risk	(48)	
Foreign exchange risk	(44)	
TOTAL	**(92)**	

2. Cash flow hedges

	31/12/2018		
	Change in the value of the hedging instrument recognised in OCI	Hedge ineffectiveness recognised in profit or loss	Amount reclassified from the cash flow hedge reserve to profit or loss - discontinued hedge
(EUR million)	Gains and losses directly recognised in equity of the balance sheet	Net gains (losses) on financial instruments at fair value through profit or loss	Net gains (losses) on financial instruments at fair value through profit or loss
Interest rate risk	48		3
Foreign exchange risk	65		3
TOTAL	**113**		**5**

3. Hedge of a net investment in a foreign entity

Nil.

8. Segment and geographic reporting

a. Segment reporting

Having completed its commercial entity disposal programme as required under the resolution plan, Dexia and Dexia Crédit Local are now focused on managing their residual assets in run-off, protecting the interests of the Group's State shareholders and guarantors. In line with the group's profile and strategy, Dexia Crédit Local's performance is now shown at a consolidated level on the basis of a single division entitled "Management of activities in run-off", without specific allocation of funding and operating expenses by segment of activity.

b. Geographic reporting

(in EUR million)	France	Spain	Ireland	Italy	United States	Israel	Others	Total
As at 31 December 2017								
NET BANKING INCOME	**(14)**	**33**	**79**	**36**	**(53)**	**20**	**(26)**	**75**
As at 31 December 2018								
NET BANKING INCOME	**(88)**	**17**	**123**	**(60)**	**(60)**	**0**	**0**	**(68)**

Geographic reporting is done based on booking centers, being the country of the company having recorded the transaction and not the country of the counterparty at the transaction.
As a consequence, as at 31 December 2018, there aren't any longer figures presented for net banking income in Israel following the exit of Dexia Israel from the scope of consolidation.
Also, as Dexia Kommunalbank Deutschland is a discontinued operation, in application of the standard IFRS 5, its results don't contribute any longer to the net banking income and figures 2017 were restated. This explains why Germany is not reported any longer in the geographic reporting.

Statutory auditors' report on the consolidated financial statements

For the year ended December 31st, 2018

To the annual general meeting of Dexia Crédit Local,

Opinion

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying consolidated financial statements of Dexia Crédit Local for the year ended December 31st, 2018.
In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 December 2018 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.
The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
Our responsibilities under those standards are further described in the "*Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1st, 2018to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of ethics (code de déontologie) for statutory auditors.

Justification of Assessments – Key Audit Matter

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

The ability to continue as a going concern used for the preparation of the financial statements *(We refer to the note 1.1.1.1 and 1.5 in the notes to the Consolidated Financial Statements)*	
Key Audit Matter	**How our audit addressed the key audit matter**
Dexia Crédit Local’s ability to continue as a going concern is based on the revised orderly resolution plan of the Dexia Group, approved by the European Commission on 28 December 2012. This plan, further reassessed by the Board of Directors of 19 December 2018, is based amongst others on the following assumptions: – the underlying macro-economic assumptions to the business plan are reviewed as part of the semi-annual reviews of the orderly resolution plan, which also include a review of the latest observable market data and a review of the latest accounting standards and regulatory developments. In its latest update, the business plan is based on market data as of 30 June 2018, as well as the non-renewal, as from 1 January 2019, of the specific approach applied by the European Central Bank for the supervision of the Dexia Group; – the business plan assumes the preservation of the banking licenses of the different entities composing the Group and of the credit rating of Dexia Credit Local; – the continuation of the resolution plan assumes that Dexia Crédit Local maintains a good funding capacity, which relies in particular on the appetite of investors for the debt guaranteed by the Belgian, French and Luxembourg States as well as on Dexia Crédit Local’s capacity to raise secured borrowings; – discussions are occurring between the European Commission and the Belgian and French States, on the renewal of the States guarantee as from 1 January 2022; – finally, Dexia Crédit Local is sensitive to the evolution of its macro-economic environment and to market parameters, including exchange rates, interest rates and credit spreads, of which fluctuations are likely to impact the business plan; As of today, uncertainties remain about the realization of the business plan supporting the ability to continue as a going concern for Dexia Crédit Local. Consequently, we consider the ability to continue as a going concern used for the preparation of the financial statements as a key audit matter.	We have examined the latest evaluation made by the Executive Committee and the Board of Directors of Dexia Crédit Local to continue as a going concern for a period of twelve months starting at the closing date of the exercise, as prescribed by IAS 1 – Presentation of Financial Statements, as well as the elements used to justify the evaluation and its underlying documentation: We have applied, amongst other, the diligences prescribed by ISA 570 “*Going Concern*”: – we have assessed the elements on which the liquidity projections were estimated by Dexia Crédit Local until December 2020, based on the available related documentation and on inquiries with management. – we have considered the main regulatory ratios as of 31 December 2018 (*Liquidity Coverage Ratio, Common Equity Tier 1*) considering the requirements applicable to the Dexia Crédit Local Group. – We have inquired the Executive Committee and the Board of Directors regarding the latest underlying assumptions to the revised business plan, based on end of June 2018 data and presented to the Board of Directors on 19 December 2018. As mentioned in note 1.1.1.1, as of today, uncertainties exist on the realization of this business plan, besides the macro-economic factors, that are amongst other related to: • the conditions to access the Eurosystem financing facilities after 2021; • the renewal of the States/ shareholders’ funding guarantee as from January 1st, 2022, on which the Belgian and French States have started discussions. We have been made aware of the notification on 25 February 2019 by the States to the European Commission of a project of a new guarantee, which is still being discussed and is subject to the validation procedures in Belgium and in France, and which is ultimately subject to an agreement between Dexia and the two States; • the future organizational structure of the Dexia Crédit Local group. – we have considered the quarterly reports on the financing strategy and the operational continuity, established by Dexia Crédit Local as requested by the European Central Bank. Finally, we have examined the compliance with the legal and regulatory requirements of the information related to the going concern in the notes of the consolidated financial statements.

Operational risks linked to the information systems *(We refer to the note 1.4 in the notes to the Consolidated Financial Statements.)*	
Key Audit Matter	**How our audit addressed the key audit matter**
Dexia Crédit Local is dependent, for its operational activities, on the reliability and security of its information systems. The activity of Dexia Crédit Local is also seen in the specific context of the management of the existing assets portfolios in rundown, in the context of the orderly resolution plan validated by the European Commission on December 28, 2012. With this background and to ensure operational continuity, Dexia Credit Local has outsourced its IT function (development, production and infrastructure) and back-offices to an external service provider. Dexia Credit Local, during 2018, has also decided to outsource the upgrade and management of the IT infrastructure to the same service provider. In this specific context, the management of operational risk linked to information systems performance, and accounting and finance data automated treatment are considered as a key audit matter.	The assessment of the general IT controls used throughout the accounting and financial data-flow chain is a key step in our audit approach. The audit work performed within the external service provider organization with the assistance of our IT specialists, namely consisted in: – understanding the structure of the IT landscape and the processes and controls related to the production of the accounting and financial information; – examining the way Dexia Crédit Local handled the impacts of IT incidents that occurred during the accounting period and the related corrective actions implemented; – assessing the operating effectiveness of general IT controls (access right management to the applications and data, change management and application development, and management of the IT operations), and the key automated controls on significant information systems (mainly the credit and market applications, accounting, consolidation, automated reconciliation between the management data and accounting data,…); – performing detailed procedures on manual journal entries, related to the write access rights of manual entries, and to the review of the supporting documentation justifying the nature and input of manual entries; – understanding the control and supervisory framework currently being implemented by Dexia Credit Local related to the services rendered by the external service provider in the context of the outsourcing. Finally, we have reviewed the information presented in the notes to the Consolidated Financial Statements related to the operational risks with relation to the information systems

First time application impact of IFRS 9 – "Financial Instruments"
(We refer to the notes 1.1.2.1, 1.1.6 and 1.6 in the notes to the Consolidated Financial Statements.)

Key Audit Matter	How our audit addressed the key audit matter
The Dexia Crédit Local Group has applied, as from 1 January 2018, the IFRS 9 standard « *Financial Instruments* » which introduces significant changes around classification, measurement and impairment of financial assets. The first-time application of IFRS 9 led Dexia Crédit Local to recognize a positive impact of 2 844 million euros for phase 1 "classification and measurement" and a negative impact of 191 million euros for phase 2 "Impairment" in the equity, to publish an opening balance sheet as of 1 January 2018, and to disclose detailed information in the note 1.6 on the transition of the balance sheet as of 31 December 2017 in accordance with IAS 39 to the opening balance sheet as of 1 January 2018 in accordance with IFRS 9. For financial assets considered as basic that meet the SPPI criteria (*Solely Payment of Principal and Interest*), the classification at amortized cost (AC) or at Fair-Value Through Other Comprehensive Income (FVOCI) depends on Dexia's business model for managing these assets. According to the Orderly Resolution Plan, approved by the European Commission in 2012, Dexia Crédit Local has no longer any commercial activities and its residual assets are being managed in run-off without accelerated sale of the whole assets of the Group in order to protect its capital base. Consistently with this Orderly Resolution Plan, Dexia Crédit Local will therefore collect the cash flows over the life of a major part of the SPPI assets which are measured at amortised cost. Another part of Dexia Crédit Local's SPPI financial assets, isolated in dedicated portfolios, is held within a business model collect and sale when market opportunities will appear. These assets are measured at FVOCI. The trade-off between these two portfolios was subject to strategic decisions made by the Management Board of Dexia Crédit Local during 2017, validated by the Board of Directors on 13 December 2017, and which were not modified during the year 2018. Considering the complexity of the implementation of this new accounting standard, the judgements applied by the Management Board, amongst others in the determination of the Business Model to determine the classification of the assets, as well as the calculation of the impairments based on the expected credit losses principle, and the significance of the published information, we consider that the determination of the impacts from the first-time application of IFRS 9 as a key audit matter.	We have assessed the processes set-up by Dexia Crédit Local for the implementation of this new standard. We have worked with our specialists for the assessment of the analysis and of the models used by Dexia Crédit Local for the application of the new IFRS 9 accounting standards. We have amongst others used our specialists to perform the review of the changes in the information systems allowing the operational implementation of the new accounting standard. On the classification and measurement, our audit work mainly consisted in: – reviewing the analysis performed, the factual elements supporting the accounting principles defined and applied by Dexia Crédit Local, namely the consistency of the accounting choices with the last update of the business plan, the review of the business model of each portfolio of assets, and the contractual characteristics of the financial assets belonging to such portfolios; – assessing the consistent application of the accounting choices throughout all entities of the Group; – testing, based on a sample of contracts in each portfolio, the accuracy of the analysis performed by Dexia Crédit Local on the SPPI criteria; – assessing the valuation models of the financial assets classified at fair value though equity or at fair value through profit and loss. On the impairment, our audit work consisted in: – assessing the compliance of the impairment principles applied by Dexia Crédit Local with IFRS 9 and the methodologies applied throughout all entities of the Group, both on parameters of expected credit losses and on measurement of credit risk deterioration; – assessing the appropriateness of the models and parameters used for calculation of impairment, and their correct implementation in the IT systems and their related financial reporting framework; – assessing the correct application of the criteria for the assessment of the increase in credit risk for the classification of the financial instruments in each of the respective three stages; – performing independent counter-valuation of impairments. We have reviewed the accuracy of the information disclosed in the notes to the Consolidated Financial Statements related to the impacts of the first time application of IFRS 9.

Assessment of credit risk and evaluation of impairments
(We refer to the notes 1.1.6.2.5, 2.4 à 2.7, 3.6, 5.10 and 7.2 in the notes to the Consolidated Financial Statements.)

Key Audit Matter	How our audit addressed the key audit matter
As from 1 January 2018, the impairments recorded by Dexia Crédit Local to cover the credit risks inherent in its banking activities are determined in accordance with the IFRS 9 standard, and therefore to the principle of expected credit losses. The evaluation of the expected credit losses related to the financial assets requires the use of judgment especially for: – assessing the level of credit risk and the potential significant increase in credit risk to classify exposures under stage 1, stage 2 or stage 3 based on the expected time and probability of losses' occurrence; – assessing the level of credit risk and the existence of impairment indicator for the classification of the exposures in stage 3; – estimating for each bucket the amount of expected losses; – setting up macro-economic projections to be integrated at the same time in the criteria used for the increase in credit risk and for the measurement of expected credit losses.	We have assessed the design and implementation of Dexia Crédit Local's internal control framework on the credit risk and have tested the operating effectiveness of the key controls related to the assessment of credit risk and evaluation of expected losses. Our procedures included, among others, the following: – take note of governance related to credit risk and calculation of expected credit losses, of the internal control framework around the definition and validation of impairment models and the parameters used to calculate these impairments, of the work and conclusions of the Risk Management on the internal validation of internal models; – exposures classification per stage: we have assessed the adequacy and the correct application of withheld indicators to measure significant increase in credit risk, and the existence of impairment indicator; – evaluation of expected losses (stages 1, 2 and 3): • with the assistance of our specialists in charge of credit risks, we have validated the Dexia Crédit Local retained methodologies for the determination of the parameters of the impairment calculation, their correct operational implementation in the information systems and the effectiveness of the key controls regarding data quality; • for the specific impairments on financial assets classified in stage 3, we have verified the occurrence of a periodical credit risk review by Dexia Crédit Local and have assessed based on samplings, the management assumptions and data used for the estimation of impairments. We have also examined the information presented in the notes to the Consolidated Financial Statements and particularly the new information required by the implementation of IFRS9.

Valuation of the financial instruments classified in level 2 and level 3 in the fair value hierarchy *(We refer to the notes 1.1.7.1, 1.1.7.2, 2.3, 2.4, 3.1, 4.1, 5.3, 5.4, 7.1 in the notes to the Consolidated Financial Statements)*	
Key Audit Matter	**How our audit addressed the key audit matter**
In conducting its market activities, Dexia Crédit Local holds financial instruments classified in level 2 and 3 in the fair value hierarchy. These instruments are recorded at fair market value based on valuation models, including (level 3) or not (level 2) significant parameters which are either unobservable or cannot be corroborated directly with market data. The fair values calculated may be subject to additional value adjustments to take into account certain market, liquidity and counterparty risks, including for the derivatives: – Credit Value Adjustment (CVA): takes into account the risk of default of the counterparty; – Debit Value Adjustment (DVA): takes into account the own credit risk of Dexia; – Funding Value Adjustment (FVA): takes into account the financing costs for the non-collateralized derivatives; and – the use of an actualization curve based on a daily rate curve (OIS). The methods used by Dexia Crédit Local to value the financial instruments, as well as the estimation of the fair value adjustments, include a significant part of professional judgment regarding the defined methodologies, the choice of valuation parameters and the fair value adjustments, as well as the use of internal valuation models. These financial instruments classified in Level 2 and 3 in the fair value hierarchy in note 7.1 of the notes represent 120 692 million euros of the assets and 150 286 million euros of the liabilities of the consolidated balance of the Group as at 31 December 2018. Due to the substantial outstanding amounts and the significant use of professional judgment in the estimation of the fair value, we have assessed that the evaluation of the financial instruments classified in level 2 and 3 is a key audit matter.	We have assessed the relevance of the key controls, defined and implemented by Dexia in the context of the valuation of financial instruments classified in level 2 and 3 including those relating to: – the financial instruments' classification methodology in the fair value hierarchy as defined by IFRS 13 and its periodical backtesting process; – the assessment of uncertainty risk on the valuation linked to the use of valuation models: we have verified the existence of a models' cartography and have assessed the documentation of the quantification of the uncertainty risk related to the use of these models; – the independent verification of the valuation parameters: we have amongst others analyzed the relevance of the data sources used in accordance with the general principles of a Mark-to-Market valuation and we have assessed the respect of the hierarchy of these sources; – the estimation of fair value adjustments: we have assessed amongst others the relevance of the methodologies used, conducted an analytical review of the impacts and examined the reconciliation with the accounting data. We have relied on our valuation experts to perform, based on a sample basis: – an analysis of Dexia's own assessment of the calculation of uncertainty risk related to the use of valuation models; – an analysis of the relevance of the valuation parameters withheld; – the independent validation of valuation by using our own models. We have assessed the design of the tool used for the calculation and exchange of collaterals on financial derivatives and we have analyzed the main differences in valuations with the counterparties for these instruments in order to comfort our assessment of the reliability of Dexia Crédit Locals's valuations. Finally, we have examined the information included in the notes to the Consolidated Financial Statements regarding the valuation of financial instruments in the context of the requirements of IFRS 13.

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Documentation and effectiveness of the hedging relationships *(We refer to the notes 1.1.10, 1.1.11, 4.1, 5.3 and 7.8 in the notes to the Consolidated Financial Statements)*	
Key Audit Matter	**How our audit addressed the key audit matter**
In conducting its financing activities, Dexia has set-up a risk management policy designed to cover the risk of change in fair value or change in cash-flows of its assets and liabilities by using hedging derivatives. The designation of a hedging relationship is defined by IAS 39 - Financial Instruments: Recognition and Measurement, and in particular the following conditions must be met: – the documentation of the characteristics of the hedged item, of the hedging instrument, and of the type of hedging relationship designated; – the justification of the use of hedge accounting by the performance of efficiency quantitative and qualitative testings supporting the hedging relationship. As of 31 December 2018, the outstanding hedging derivatives amount on the assets side to 4 421 million euros (of which 3 159 million euros of on-current assets held for sale) and 24 854 million euros on the liabilities (of which 3 703 million euros of non-current liabilities held for sale). The net loss of the hedge accounting amounts to - 131 million euros. Due to the significant impacts in the Consolidated Financial Statements of Dexia Crédit Local, we consider the documentation and effectiveness of the hedging relationships as a key audit matter.	We have assessed the relevance of the internal control system and the governance related to the documentation and the effectiveness testing of the hedging relationships. In our audit work we have focused on: – the documentation of the hedging relationships; – the identification of the hedged portfolios and hedging instruments; – the process to perform the effectiveness tests supporting the hedging relationships designated over time and the recording of the ineffectiveness; – the principles of derecognition of hedging relationships. Our work on the outstanding relationships at closing date focused on the following: – the reconciliation of the outstanding amounts per management accounting with the outstanding amounts per financial accounting; – the critical review of the effectiveness tests and the recording of the related inefficiency; – the analytical review of the OIS/BOR ineffectiveness variation over the accounting year. In addition, we have assessed if the methodology applied by Dexia complies with the IFRS standards on the accounting treatment of hedging relationships when a sale of a hedged instrument occurs. We have also assessed the accounting impacts related to the termination of hedging relationships or allocation of hedging instruments to new relationships. Finally, we have examined the information included in the notes of the Consolidated Financial Statements relating to the risks arising from the hedging relationships of Dexia Crédit Local in the context of the IFRS requirements.

Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations of the Group's information given in the management report of the Board of Directors).

We have no matters to report as to the fair presentation and the consistency with the consolidated financial statements of the information given in the management report.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed as statutory auditors of Dexia Crédit Local by the general annual meetings held on 16 May 2008 for Deloitte & Associés and 28 June 1996 for Mazars.

As at 31 December 2018, Deloitte & Associés and Mazars were in the 11th year and 23rd consecutive year of their engagement, respectively.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objectives and Audit Approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements;
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

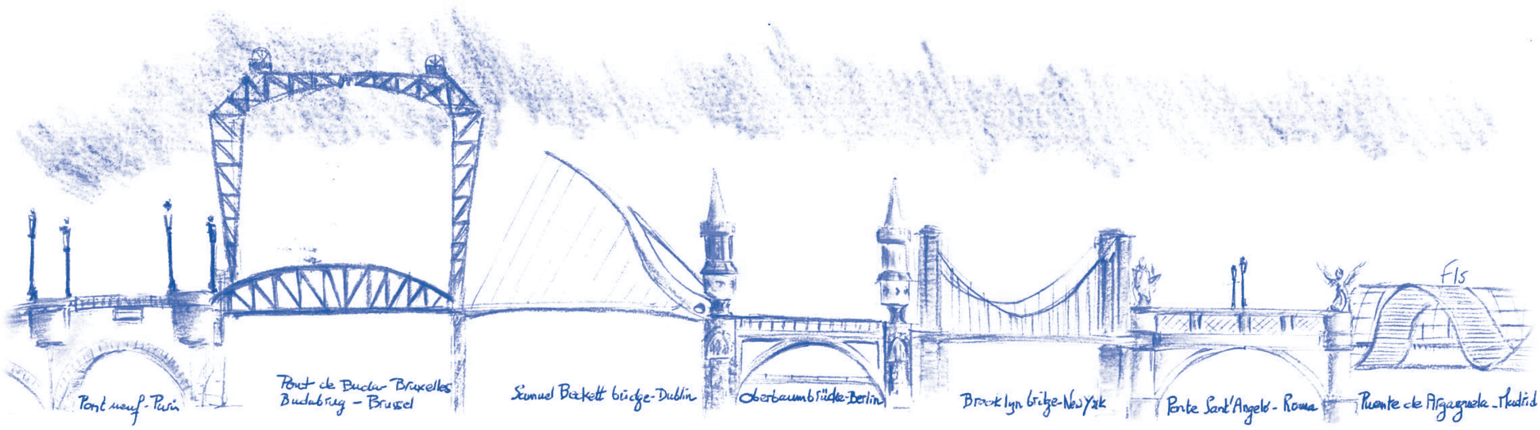
Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code (code de commerce) and in the French Code of Ethics (code de déontologie) for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris la Défense and Courbevoie, April 16, 2019

French original signed by the statutory auditors

DELOITTE & ASSOCIES		MAZARS	
Pascal COLIN	Jean-Vincent COUSTEL	Franck BOYER	Claire GUEYDAN



Financial statements

Balance sheet

Assets

(in EUR million)	Note	As at 31/12/2017	As at 31/12/2018
I. Cash, central banks and postal checking accounts	*2.1*	404	796
II. Government securities	*2.2*	2,737	6,564
III. Interbank loans and advances	*2.3*	28,958	22,803
IV. Customer loans and advances	*2.4*	29,987	24,164
V. Bonds and other fixed-income securities	*2.5*	26,676	25,632
VI. Equities and other variable-income securities	*2.6*	140	108
VII. Long-term equity investments	*2.7*	266	714
VIII. Intangible assets	*2.8*	30	33
IX. Tangible fixed assets	*2.9*	2	2
X. Unpaid capital		0	0
XI. Uncalled capital		0	0
XII. Treasury stock		0	0
XIII. Other assets	*2.10*	22,676	21,819
XIV. Accruals	*2.10*	7,061	6,250
TOTAL ASSETS		**118,937**	**108,885**

Liabilities and equity

(in EUR million)	Note	As at 31/12/2017	As at 31/12/2018
I. Interbank borrowings and deposits	*3.1*	30,998	22,841
II. Customer deposits	*3.2*	8	1
III. Debt securities	*3.3*	70,853	68,296
IV. Other liabilities	*3.4*	4,637	3,890
V. Accruals	*3.4*	8,417	9,088
VI. Provisions for risks and charges	*3.5*	1,184	1,327
VII. General banking risks reserve		0	0
VIII. Subordinated debt	*3.6*	182	163
EQUITY	*3.7*	**2,658**	**3,279**
IX. Capital stock		279	279
X. Additional paid-in capital		2,588	2,588
XI. Reserves and retained earnings		(1,213)	(235)
XII. Net income (loss) for the year		1,004	647
TOTAL LIABILITIES AND EQUITY		**118,937**	**108,885**

Off-balance sheet items

(in EUR million)		Note	As at 31/12/2017	As at 31/12/2018
COMMITMENTS GIVEN				
I.	Financing commitments given	*4.1*	7,818	1,869
II.	Guarantee commitments given	*4.2*	4,072	3,363
III.	Other commitments given	*4.3*	31,141	27,103
COMMITMENTS RECEIVED				
IV.	Financing commitments received	*4.4*	5,001	4,652
V.	Guarantee commitments received	*4.4*	16,085	13,257
VI.	Commitments related to securities	*4.5*	0	0
VII.	Commitments related to foreign currency transactions	*4.6*	56,792	56,951
VIII.	Commitments related to forward and derivative financial instruments	*4.7*	274,778	259,479

Income statement

(in EUR million)		Note	As at 31/12/2017	As at 31/12/2018
I.	Interest income	5.1	3,100	3,964
II.	Interest expense	5.1	(2,696)	(3,513)
III.	Income from variable-income securities	5.2	54	4
IV.	Fee and commission income	5.3	1	1
V.	Fee and commission expenses	5.3	(13)	(13)
VI. A	Net gains (losses) on held-for-trading portfolio transactions	5.4	(6)	(295)
VI. B	Net gains (losses) on available-for-sale portfolio transactions	5.4	933	251
VI. C	Net gains (losses) on held-to-maturity portfolio transactions	5.4	62	67
VII.	Other banking income	5.8	2	0
VIII.	Other banking expenses	5.8	(10)	0
NET BANKING INCOME (LOSS / PROFIT)			**1,427**	**466**
IX.	General operating expenses	5.5	(311)	(307)
X.	Depreciation and amortisation		(10)	(14)
GROSS OPERATING INCOME (LOSS / PROFIT)			**1,106**	**145**
XI.	Cost of risk	5.6	67	(35)
OPERATING INCOME (LOSS / PROFIT) AFTER COST OF RISK			**1,173**	**110**
XII.	Net gains (losses) on non-current assets	5.7	(162)	528
INCOME (LOSS / PROFIT) BEFORE TAX			**1,011**	**638**
XIII.	Non-recurring items	5.9	0	11
XIV.	Corporate income tax	5.10	(7)	(2)
XV.	Net change in general banking risks reserve		0	0
NET INCOME (LOSS / PROFIT)			**1,004**	**647**
BASIC EARNINGS PER SHARE (EUR)			3,6	2,32
FULLY DILUTED EARNINGS PER SHARE (EUR)			3,6	2,32

Notes to the financial statements

1. Accounting policies and valuation methods

1.1. Significant events in 2018

The significant events of the financial year are as follows:

On 17 March 2018, Dexia Crédit Local concluded an agreement to sell all its shares representing 58.89% of the capital in Dexia Israel. The sale was agreed at a price of NIS 674 per share and for a total amount of EUR 82 million. The capital gain on the sale of these shares was EUR 23.9 million.

During the first quarter of 2018, as part of the proposed sale of Dexia Kommunalbank Deutschland (DKD), a DKD portfolio of 108 securities, mainly shares issued by Italian local authorities, was transferred to the DCL Dublin branch for a nominal amount of EUR 3.56 billion and a transfer value of EUR 5.14 billion. These securities have been booked as investment securities.

DCL Lisbon, a branch of Dexia Crédit Local, created by the cross-border merger of Dexia Sabadell with DCL on 1 October 2016, was closed on 29 June 2018. This closure was accompanied by the transfer of all DCL Lisbon's assets to DCL Paris, i.e. 24 loans transferred for a nominal amount of EUR 507 million. This transfer has no impact on the income statement.

During the second half of 2018, all the assets of the DCL Madrid branch were transferred to DCL Paris, i.e. 434 loans with a nominal value of EUR 3.36 billion. This transfer has no impact on the income statement. The closure of the DCL Madrid branch, also created by the cross-border merger of Dexia Sabadell with DCL on 1 October 2016, is planned for 30 March 2019.

Several external loan transfers took place in 2018, in particular:
– a sale at par of 630 social housing financing loans for a nominal amount of EUR 797 million;
– a sale of 186 loans from the French Local Public Sector for a nominal amount of EUR 1,089 million for an impact on income of EUR +12.5 million.

On 14 December 2018, Dexia and Helaba announced the signature of a sale and purchase agreement allowing Helaba to acquire 100% of the shares of Dexia Kommunalbank Deutschland (DKD) for a total amount of EUR 352 million after a reserve distribution in an amount of EUR 160 million. Dexia Crédit Local, acting through its DCL Dublin branch, will sell its DKD shares after having obtained all necessary regulatory approvals. The transaction is expected to be completed in the second quarter of 2019. The impact of this agreement is reflected in a EUR 504 million reversal of a provision for impairment on the shares in DKD, the value of which was zero in the financial statements.

As at 31 December 2018, the valuation of Dexia Crediop's stake in Dexia Crédit Local's financial statements is estimated at EUR -90 million. Dexia Crediop's results are significantly impacted by the implementation, on 19 December 2018, of a new long-term funding plan aimed at enabling Dexia Crediop to comply with prudential ratios. The implementation of this new funding plan follows the end of the specific prudential approach implemented by the European Central Bank between 2015 and 2018.

The Dexia Crediop shareholding was recorded at zero value in DCL's parent company financial statements as at 31 December 2017. In view of the deterioration in value in 2018, it was decided to alter the value of this shareholding in the parent company financial statements of Dexia Crédit Local by making a provision of EUR -90 million as at 31 December 2018, which covers both the Group's share (70%) and also that of the minority shareholders (30%), since Dexia cannot force the minority shareholders to cover the losses.

Finally, a change in the method of calculating the collective provision was made in 2018. This change of estimate makes it possible to harmonise the methods of calculating provisions with those of the expected credit loss model under IFRS 9 while meeting the criteria of French standards. The impact of this change in estimate in the income statement is EUR +71 million.

Events later than the closing of the accounts:

Nevertheless, the results projections could be significantly impacted depending on the accounting and prudential treatment which might be given to the modified State guarantee scheme for issues after 31 December 2021, which was notified by the States to the European Commission on 22 February 2019 (cf. Dexia press release dated 26 February 2019).

1.2. Accounting policies and valuation methods used to present the financial statements

The statutory and consolidated financial statements of Dexia Crédit Local as at 31 December 2018 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions underlying the business plan for the resolution of the Dexia Group, listed below.

• The business plan was constructed from market data available at the end of September 2012; the underlying macroeconomic assumptions are reviewed as part of the half-yearly reviews of the overall plan.
In particular, the updates made on the basis of market data observable as at 30 June 2017 and validated by the Board of Directors of Dexia on 14 November 2017 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments to date, such as the final version of the CRD IV Directive and implementation of the IFRS 9 accounting standard from 1 January 2018, based on the assumptions known to date.
The business plan thus revised leads to adjustments in relation to the original plan. These result in a significant change to the trajectory of the Group's resolution as initially anticipated, in particular in terms of profitability, solvency and funding structure, but at this stage they do not raise questions as to the nature and the fundamentals of the resolution.
• The business plan assumes the maintenance of the banking licences of the various entities and the rating of Dexia Crédit Local.
• It moreover assumes that Dexia Crédit Local will retain a sound funding capacity, which relies in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on the Group's capacity to raise secured funding.
Since validation of the orderly resolution plan in December 2012, Dexia Crédit Local's funding structure has benefited from an increase of market funding, both secured and guaranteed, at a cost considerably lower than anticipated in the business plan, and for larger volumes and longer maturities. This has enabled Dexia Crédit Local, firstly, to exit the exceptional funding mechanisms put in place in 2012 and, secondly, to reduce to zero its reliance on central bank funding as at 31 December 2017(1). Considering the substantial reduction of Dexia Crédit Local's funding volume since the end of 2012 and the diversification of its funding sources, the expected impact of this decision should remain limited. Furthermore, Dexia Crédit Local implements a prudent liquidity management and maintains important liquidity reserves.
However, over the duration of the Group's resolution, uncertainties remain regarding the implementation of the business plan.
• It is in particular exposed to the evolution of accounting and prudential rules.
• The financial characteristics of Dexia and Dexia Crédit Local since their entry in resolution do not allow them to ensure constant compliance with certain regulatory ratios over the resolution period.
Dexia and Dexia Crédit Local are also sensitive to the evolution of their macroeconomic environment and to market parameters, including exchange rates, interest rates and credit spreads, fluctuations of which are liable to impact the business plan. In particular, an unfavourable evolution of these parameters over time may weigh on the Dexia and Dexia Crédit Local's liquidity and solvency position, by increasing the amount of cash collateral paid by Dexia and Dexia Crédit Local to their derivatives counterparties(2) or an impact on valuations of the financial assets and liabilities and OTC derivatives, fluctuations of which are booked in the income statement and are liable to result in a fluctuation of the AFS reserve and the level of regulatory capital.

(1) On 21 July 2017 the European Central Bank announced the end of access to the Eurosystem for wind-down entities as from 31 December 2021.
(2) The sensitivity of the liquidity requirement to that parameter being in the order of EUR +1 billion for a decrease of 10 basis points in long-term rates.

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

The financial statements have been prepared in accordance with the principles and standards contained in European Council Directives governing the financial statements of banking institutions, in compliance with Regulation n° 2014-07, regarding the preparation of individual financial statements.

a. Changes in accounting policies and valuation methods applied to the financial statements

In accordance with Regulation n° 2018-01 relating to changes in accounting policies, changes in accounting estimates and corrections of errors, the modification of the method for calculating the collective provision constitutes a change in accounting estimates under French accounting standards. This new estimate enables to harmonize the provision calculation method with those of the expected credit loss model under IFRS 9 while meeting the criteria of the French accounting standards. Indeed, this new estimate is based on the notion of incurred loss to recognize a provision, which is consistent with the exposures transferred in stage 2 under IFRS 9 according to the qualitative approach only (this concerns only sensitive economic sectors or exposures for which the level of risk is considered to be material). This change is applied prospectively as from 1 January 2018. The impact of the change on the current financial year is recorded in the financial statements of the year.

b. Measurement of items in the balance sheet, off-balance sheet and income statement in the summary financial statements

The summary financial statements have been prepared in accordance with the rules of prudence, and fundamental accounting principles:
• going concern assumption;
• matching principle;
• consistency criterion.

Customer loans

Any loans approved but not yet disbursed are shown as off-balance sheet items.
Current and accrued interest on customer loans is recognised in banking income on an accrual basis, as is the interest on overdue payments. Interest on non-performing loans reported in net banking income is neutralised by the recognition of an equivalent amount of impairment.
Related fees and commissions received and incremental transaction costs on extending or acquiring credits, if significant, are spread over the effective life of the loan. Other fees received are recorded directly to income.
For both accounting and tax purposes, all early repayment penalties on loans recognised up to 31 December 2004 will continue to be amortised over the remaining life of the related loans in proportion to the outstanding interest that would have had to be paid. The balance of outstanding penalties to be amortised is classified under deferred income.
Since 1 January 2005, all early repayment penalties on loans have been taken into income at the repayment date.
Customer loans are stated in the balance sheet net of provisions for possible losses. They are broken out into four separate categories: performing loans, restructured performing loans, non-performing loans under collection and doubtful non-performing loans.

Non-performing loans are considered to be doubtful as soon as it becomes apparent that they will probably or certainly not be repaid. Non-performing loans are defined as any loans that are more than three months overdue in accordance with the prudential definition of default published by the European Banking Authority and regulation published by the ECB as single supervisor. Loans to borrowers that have been subject to formal alert procedures or filed for bankruptcy are classified as loans under collection, this category being analysed in the notes to the financial statements in the same way as non-performing loans.

Impairment on non-performing loans is computed on the basis of the estimated loss exposure. Interest is written down in full.

Non-performing loans are considered to be doubtful as soon as their repayment becomes highly uncertain and it becomes apparent that they will eventually be written off.

Non-performing loans are downgraded from "under collection" to "doubtful" either one year at the latest after becoming non-performing, or immediately if the loan had previously been classified as a restructured performing loan. The interest on these loans is no longer included in interest income once they have been classified as doubtful non-performing.

Loans that have been restructured under non-market conditions are included in the second category until their final maturity. They are written down for impairment in an amount equal to the present value of the future interest payments gap. This write-down is taken immediately into expense under the cost of risk, and is reversed into income on an accrual basis over the remaining term of the loan.

Securities transactions

The securities held by Dexia Crédit Local are recorded on the balance sheet under the following asset headings:

- government securities eligible for Central Bank refinancing;
- bonds and other fixed-income securities;
- equities and other variable-income securities.

In accordance with Regulation n° 2014-07, they are broken out in the notes to the financial statements into "Held-for-trading securities", "Available-for-sale securities" and "Held-to-maturity securities".

Held-for-trading securities

Held-for-trading securities are securities traded on a liquid market that are purchased or sold with the intention of being sold or repurchased within a short period of time. The Dexia Crédit Local held-for-trading portfolio consists primarily of adjustable-rate bonds. Held-for-trading securities are taken to the balance sheet at cost, including accrued interest and excluding acquisition costs. At each period end, they are marked to market and the resulting unrealised gain or loss is taken to the income statement.

Available-for-sale securities

These consist of securities that are not recognised as held-for-trading securities, held-to-maturity securities, portfolio securities, other long-term investments, investments in associates or investments in related parties.

The portfolio consists primarily of fixed and adjustable-rate bonds, but also includes some variable-income securities. Fixed-rate bonds are generally hedged against interest rate risks by means of interest rate and/or currency swaps classified as hedges. The use of this technique has the effect of creating synthetic adjustable or variable-rate assets that are immunised against interest rate risks.

Available-for-sale securities are taken to the balance sheet at cost, excluding acquisition costs and accrued interest, which are recorded separately. Any premiums or discounts, corresponding to the difference between the acquisition cost and redemption price, are recorded on the balance sheet and amortised to the income statement on a quasi-yield-to-maturity basis over the remaining life of the securities. This method is applied to all securities in the portfolio.

At the reporting date, in application of the prudence principle, available-for-sale securities are recorded on the balance sheet at the lower of their acquisition cost and their selling price at the reporting date, after taking into account gains on micro hedging transactions for purposes of calculating the reduction in their value.

If no active market is available for a given financial instrument, valuation techniques are used to calculate the realisable value (or the market value, as defined elsewhere in the notes) of the instrument. The valuation model should take into account all the factors that market participants would consider when pricing the asset. In such cases, Dexia Crédit Local uses its own valuation models, taking account of market conditions at the date of the valuation as well as of any changes in the credit risk quality of these financial instruments and market liquidity.

If the potential decrease in the value of the securities exceeds the related unrealised hedging gain, a provision corresponding to the difference is deducted from the securities' carrying amount. A reserve is booked on the liabilities side of the balance sheet for any unrealised hedging losses that are not offset by an increase in the market value of the hedged securities.

Gains and losses on disposals of marketable available-for-sale securities are calculated on a FIFO basis.

Any available-for-sale securities transferred to the held-to-maturity portfolio are transferred at cost.

Any provisions for impairment that are no longer required at the date of transfer are released to the income statement over the remaining life of the securities.

Held-to-maturity securities

Held-to-maturity securities consist of fixed-income securities with fixed maturities that have been acquired or transferred from "available-for-sale securities" and "held-for-trading securities" with the explicit intention of being held to maturity.

They are either financed with back-to-back resources or hedged in order to neutralise the effect of interest rate fluctuations on earnings. The hedging instruments used consist solely of interest rate and/or currency swaps.

The use of these specific, allocated hedges has the effect of creating synthetic adjustable- or variable-rate assets that are immunised against interest rate risks.

Held-to-maturity securities are stated at cost, excluding acquisition costs and accrued interest at the date of acquisition, which are recorded separately. Premiums and discounts, representing the difference between the cost of the securities, excluding accrued interest, and the redemption price, are amortised on a yield-to-maturity basis over the remaining life of the securities.

Unrealised gains are not recognised and no provisions are booked for unrealised losses at the balance sheet date except in cases where:

- the ability of the issuer to honour its repayment obligations appears uncertain; or
- it is probable that the securities will not be held to maturity due to a change in circumstances.

Should held-to-maturity securities be sold or transferred to another portfolio category for an amount that is material relative to the total value of all held-to-maturity securities, Dexia Crédit Local would no longer be authorised to classify any securities previously or subsequently acquired as held-to-maturity until the third following full fiscal year, unless said sale or transfer does not call into question the bank's intention of maintaining its other held-to-maturity securities until their actual maturity (e.g. sale of one particular held-to-maturity security whose issuer's credit quality has deteriorated significantly, or in the case of held-for-trading or available-for-sale securities that were previously transferred into held-to-maturity under extraordinary market conditions that required a change of strategy and which may once more be traded on an active market). All previously acquired held-to-maturity securities are reclassified as "available-for-sale securities" at their carrying amount at the same time that the other securities are reclassified.

Portfolio securities

This category includes variable-income securities purchased on a regular basis with the intention of selling them at a profit in the medium-term. At the time of purchase, the company has no intention of investing in the long-term development of the issuer's business or of actively participating in its day-to-day management.
Portfolio securities are taken to the balance sheet at cost excluding acquisition costs. At each period end, they are stated at the lower of historical cost and fair value to the Group. Fair value is determined based on a range of criteria, including the issuer's outlook and the length of the estimated holding period. For listed securities, fair value is the average market price determined over a sufficiently long period in view of the estimated holding period to eliminate the impact of any wide swings in market prices. At each period end, and for each line of securities, if the fair value represents less than carrying amount, a provision is booked for the unrealised loss. For the purpose of determining the provision, unrealised losses are not netted against unrealised gains, which are not recognised.
Gains and losses on disposals of portfolio securities are determined on a FIFO basis.

Sale and repurchase agreements and lending of securities

Securities may be sold under repurchase agreements, lent or borrowed for the purpose of reducing Dexia Crédit Local's short-term liquidity cost.
The securities may or may not be physically delivered to the buyer.
When securities are sold under a repurchase agreement, a debt corresponding to the value of the repurchase commitment is recognised on the balance sheet. The interest paid on the funds received is recognised in the income statement on an accrual basis.
Gains and losses on repurchase agreements are calculated using the same method as for outright sales, depending on the portfolio from which the securities were taken.
Transactions involving the simultaneous cash sale and forward purchase of the same securities are accounted for in the same way as repurchase agreements. The cash held in connection with repurchase agreements is periodically adjusted to take account of changes in the market value of the securities during the term of the contract, so as to reduce the credit risk incurred by the buyer as a result of any impairment in value of the collateral represented by the securities.
Loaned securities are reclassified as receivables for an amount equal to the carrying amount of the loaned securities. At each balance sheet date, the receivable is re-measured using the valuation principles applicable to the securities that have been loaned.
Borrowed securities are recorded as held-for-trading securities, with a contra entry to a liability to the lender. At each balance sheet date, the borrowed securities and the corresponding liability are re-measured using the valuation principles applicable to held-for-trading securities.

Long-term investments

Investments in associates

Investments in associates represent investments that are intended to be useful to the Group's activities over the long term. They are intended to:
- be held on a long-term basis to exercise influence or control over the issuer; or
- underpin banking relations with the company concerned.

They are stated at cost excluding any related acquisition costs. At the balance sheet date, these shares are measured at the lower of cost and value in use, i.e. the fair value based on the utility of the investment to Dexia Crédit Local.
In the case of companies whose net assets are at least equal to their value when the last shares were acquired, with prior-year positive earnings or an outlook for genuine recovery in the current year, value in use to the Group is considered as being at least equal to the historical cost of the investment. In all other cases, a range of criteria are applied to determine the possible need to record a provision for impairment in value in accordance with the prudence principle.
In accordance with Regulation n° 2014-07, differences arising on translation at the year-end rate of investments denominated in foreign currencies that are financed in euros are taken to equity, under "Accumulated translation adjustments", and not to the income statement.
In the event of disposal of part of the Group's interest in an associate, the resulting gain or loss is determined on a FIFO basis.

Other long-term investments

This category comprises variable-income securities acquired with the aim of developing long-term business ties with the issuer, although Dexia Crédit Local is not in a position to influence the management of the issuer due to the small proportion of voting rights held. Other long-term securities are taken to the balance sheet at cost, excluding acquisition costs. At each period end, they are stated at the lower of historical cost and fair value. The fair value is determined for listed and unlisted securities held over the long term based on the amount the company would agree to pay to obtain the securities, given its investment objective, if it were to acquire them. Gains and losses on disposals of long-term investment securities are determined on a FIFO basis.

Tangible and intangible assets

These assets are stated at cost and depreciated or amortised using the straight-line method over their estimated useful life, at the rate at which their future economic benefits are consumed.
Unless otherwise stated, furniture and fixtures are depreciated over ten years and office equipment generally over five years. Software is amortised over three to five years.

Other assets

This heading includes mainly collateral (guarantee deposits) receivable under swap transactions, which is recognised at its carrying amount.

Debt securities

Debt securities include bonds and negotiable debt securities.

Bonds

Bonds are recorded at face value. All related accrued interest is computed at contractual rates and recorded under interest expense.
Zero-coupon bonds are recorded at their issue price. At each period end, accrued interest for the period, computed on the basis of the yield to maturity announced at the time of issue, is charged to the income statement as expenses on debt securities and an equivalent amount is added to the debt on the liabilities side of the balance sheet until the maturity date so as to gradually increase the carrying amount of the debt to the amount repayable at maturity.
Bond issuance costs are deferred and amortised on a straight-line basis over the life of the bonds. Since 1 January 2005, premiums paid or received on bonds acquired by Dexia Crédit Local are recognised directly through profit or loss.
Bonds denominated in foreign currencies are accounted for in the same way as foreign currency transactions.

Negotiable debt securities

Negotiable debt securities are stated at face value. Interest on medium-term notes, BMTN (domestic short- or medium-term notes) and negotiable certificates of deposit is recorded under "Interest expense" on an accrual basis. Prepaid interest on commercial paper is recorded under "Accrued assets" on the transaction date and amortised over the residual life of the paper.

Discounts and premiums on debt securities

Bond discounts and premiums and redemption premiums are amortised on a straight-line basis over the remaining life of the bonds from the date of acquisition. They are recorded on the consolidated balance sheet under the relevant liabilities accounts. Amortisation is taken to the income statement under "Interest expense on bonds and other fixed-income securities".

Other liabilities

This heading includes mainly collateral (guarantee deposits) payable under swap transactions, which is recognised at its carrying amount.

Reserves

Provisions for risks and charges are set aside at their present value when:

- Dexia Crédit Local has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

General (or collective) provisions on customer loans are included in this heading. These provisions cover the risk of loss in value not covered by specific impairment where at the balance sheet date there is objective evidence that probable losses are present in certain segments of the portfolio or other lending-related commitments qualified as sensitive and monitored in the framework of the "watchlist". These losses are estimated based upon historical patterns of default rate and losses in each segment and adjusted to the current macro-economic environment to date and forward looking over the next 3 years.
Regulatory tax reserves are set aside in the financial statements for accelerated tax depreciation. Reserves against forward and derivative financial instruments are booked in accordance with the rules specified in the paragraph concerning forward and derivative financial instruments.
Retirement and other post-employment benefits are calculated in accordance with the local regulations applicable in each country and are recognised as expenses for the year. These commitments are recalculated each year using an actuarial method and recognised under reserves in accordance with Recommendation 2013-02 on the evaluation and recognition of pension liabilities for annual and consolidated accounts prepared in accordance with French accounting standards.
These reserves also include provisions for deferred taxes.

Subordinated liabilities

Subordinated redeemable notes issued by Dexia Crédit Local are considered as Tier 2 capital for the purpose of calculating the European capital adequacy ratio, in accordance with EC Regulation n° 575/2013.

Forward and derivative financial instruments

Dexia Crédit Local uses forward and derivative financial instruments in the normal course of business, mainly as hedges against interest rate and currency risks and, to a lesser extent, in order to take advantage of favourable interest rate and currency trends. The instruments used include interest rate and/or currency swaps, FRAs, caps, floors, interest rate options, futures, credit default swaps and credit spread options.
Forward and derivative financial instruments are valued and accounted for in four transaction categories, in accordance with Regulation n° 2014-07 based on the initial purpose of the transaction.
The four transaction categories are specific hedges, macro-hedges, isolated open positions and specialist portfolio management; each has its own rules for measurement and recognition.
For transactions in all categories, the commitment or notional amount is recorded as an off-balance sheet commitment over the life of the contract, i.e. from the date of signing of the contract to its maturity or the start date of the reference period in the case of forward rate agreements. The amount of the commitment is adjusted to reflect any changes in notional amounts, so as to show at all times the maximum current or future commitment. Each contract is recorded separately and is classified in one of the above four categories. The accounting treatment of gains and losses depends on the underlying purpose of the transaction, as determined by its category.
Upfront equalisation payments on hedging transactions are amortised over the remaining life of the instrument. All transactions are amortised on a quasi-yield-to-maturity basis.

Hedging transactions

Micro hedging

Micro-hedges are used to cover interest rate risks on a specific item or group of items with similar characteristics, identified at the outset. The criteria applied to determine whether transactions qualify as micro-hedges are as follows:

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• the hedged item must contribute to the bank's overall exposure to fluctuations in prices or interest rates;
• the contracts must be purchased or sold for the specific purpose, and must have the specific effect, of reducing the bank's exposure to fluctuations in prices or interest rates in respect of the hedged item and must be identified as such at the outset.

Instruments meeting this definition consist primarily of swaps acquired as micro-hedges of primary issues, bonds held in the "available-for-sale" and "held-to-maturity" portfolios and customer loans. The hedging instruments have the effect of creating synthetic variable- or adjustable-rate assets or liabilities, which are immunised against interest rate risks.

Expenses and income on micro-hedges are recorded in the income statement in the same way as the expenses and income on the hedged item or group of similar items.

In cases where the hedged item is repaid early (or disposed of), the following accounting treatment is applied to the equalisation payment received or paid due to the early unwinding of the hedging instrument:
• if the hedge was unwound before 1 January 2005, the equalisation payment is spread over the remaining life of the cancelled transaction;
• if the hedge was unwound on or after 1 January 2005, the equalisation payment is recognised in profit or loss during the period in which the hedge was unwound. However, the equalisation payment paid by Dexia Crédit Local is charged against income only for the portion that exceeds gains not yet recorded in income on the symmetric position.

In both cases, deferred equalisation payments are recorded in accrued assets or liabilities.

In the case where the hedging item is unwind or replaced by an other instrument with continuation of the hedged instrument, the equalization payment is spread over the remaning life of the hedged item.

Macro hedging

This category includes contracts that are intended to hedge and manage Dexia Crédit Local's overall exposure to interest rate risks on assets, liabilities and off-balance-sheet items, other than micro-hedges, contracts representing isolated open positions and contracts acquired for specialist portfolio management purposes.

Macro-hedges have the effect of reducing Dexia Crédit Local's overall exposure to interest rate risks on its business transactions.

Expenses and income on macro-hedges are recorded in the income statement on an accrual basis under "Interest expense on macro-hedges" and "Interest income on macro-hedges". The contra entry is recorded on the balance sheet in an accruals account until such time as the funds are collected or disbursed.

In the event of the unwinding of a macro-hedge, the equalisation payment is recognised as follows:
• equalisation payments on swaps unwound before 1 January 2005 are amortised when the unwinding of the position is not linked to a prior change in the overall interest rate risks to be hedged, or are taken into income symmetrically to those components that resulted in the modification of said risk.
• as from 1 January 2005, the equalisation payment is recognised through profit or loss.

Position management

Dexia Crédit Local conducts two types of position management transactions:
• specialist held-for-trading portfolio management;
• position-taking.

Specialist held-for-trading portfolio management

This activity covers transactions with local authorities and their symmetrical transactions entered into with banks. Its purpose is the specialist management of a held-for-trading portfolio comprising specific interest rate swaps and other interest rate-based derivatives.

The held-for-trading portfolio is actively managed based on sensitivity criteria, with predefined interest rate exposure limits set internally in accordance with the Arrêté of 3 November 2014 as amended. Positions are centralised and results calculated on a daily basis.

Gains and losses are recognised on a mark-to-market basis, as follows:
• total future cash flows are marked to market on a monthly basis and the resulting unrealised gain or loss is taken to the income statement;
• all payments made or received are recorded directly in the income statement.

Mark-to-market gains and losses on derivatives are calculated using the replacement cost method. This method consists of taking each individual contract and simulating a new contract, which, at the balance sheet date, closes the open position created by the original contract. The differences in cash flows between the actual and simulated contracts are then discounted.

The portfolio valuation takes into account portfolio management costs and counterparty risks.

For the purposes of this activity, the Dexia Crédit Local New York branch centrally manages the risks generated by the portfolios. Risk is transferred using internal contracts. These contracts are put in place, recorded and valued in accordance with Regulation n° 2014-07.

Position-taking

Derivatives held in the position-taking portfolio are intended to keep isolated positions open in order to take advantage of any favourable interest rate movements. The portfolio also includes all contracts (including credit derivatives) that do not fulfil the criteria for classification as specialist portfolio management.

Gains and losses are recognised in accordance with the prudence principle as follows:
• provisions for risks are booked for any unrealised losses calculated as a result of periodic mark-to-market valuations; unrealised gains are not recognised in the income statement;
• interest and equalisation payments are recognised in the income statement on an accrual basis.

Foreign exchange transactions

Dexia Crédit Local uses currency swaps and forward purchases and sales of foreign currencies to hedge its currency risks. Currency swaps are used to match funding currencies with the currencies of the assets financed. Forward purchases and sales of foreign currencies are used to offset or reduce the impact of exchange rate fluctuations on specific items or groups of similar items. A limited number of unhedged foreign exchange positions are also established in connection with Dexia Crédit Local's position-taking activities.

In accordance with Regulation n° 2014-07, currency instruments are classified as either hedged transactions or position-management transactions. This categorisation determines the applicable accounting treatment for the related gains and losses.

Currency instruments in both categories are recorded as off-balance-sheet commitments over the life of the contract, i.e. from the date of signing of the contract to the start date of the reference period.
Each contract is recorded separately and is classified in one of the above categories. The accounting treatment of gains and losses depends on the underlying purpose of the transaction, as determined by its category.

Hedging transactions

Forward points – the difference between the forward rate and the spot rate – are recognised in the income statement on an accrual basis. The position is initially recorded at the spot rate and its value is gradually adjusted over the life of the contract to take account of the forward points.

Position-transactions management

These represent forward currency transactions that do not meet the criteria for qualification as hedged forward currency transactions as defined in Regulation n° 2014-07, in that they do not relate simultaneously to loans and borrowings or to spot currency transactions. Such transactions are entered into with the aim of taking advantage of exchange rate movements.
Gains and losses on position-management transactions are determined and accounted for by translating movements in the currency accounts into euros at the forward rate applicable to the remaining terms of the contracts.

Foreign currency transactions

In accordance with Regulation n° 2014-07, Dexia Crédit Local recognises foreign currency transactions in accounts opened and denominated in each of the currencies concerned.
Specific foreign currency position accounts are maintained in each currency showing the position in that currency and the euro equivalent.
At each period end, the difference between the value of the foreign currency position account translated into euro at the year-end spot rate and the value of the foreign currency position in the euro equivalent account is taken to the income statement. Differences arising on the translation into euro of investments in foreign currency-denominated non-consolidated companies financed in euros are recorded on the balance sheet under "Accumulated translation adjustments".
Differences arising on the translation into euros of held-to-maturity securities denominated and financed in foreign currencies are recognised on a symmetrical basis with the differences arising on translation of the related financing.
The balance sheets of foreign consolidated branches of Dexia Crédit Local are translated into euros at the period-end exchange rate, with the exception of equity, which is translated at the historical rate.
Income statement items are translated at the average rate for the period. Differences arising on translation are recorded as a separate component of equity under "Accumulated translation adjustments".

Cost of risk

The cost of risk includes movements in loss reserves on interbank and customer loans, fixed-income held-to-maturity securities (in the case of recognised risk of default by the issuer) and off-balance-sheet items (other than off-balance sheet derivatives), as well as loan losses, recoveries of loans written off in prior years, and movements in other provisions and reserves for credit risks and contingencies relating to these items.

Non-recurring items

Non-recurring income and expenses result from events or transactions that do not relate to the ordinary business operations or routine management of the company's assets and liabilities.
They represent material items of income and expense that do not depend on decisions made in connection with the routine management of the business or of the company's assets and liabilities, but which result from external events that are exceptional in terms of their infrequency and their impact on net income. Only items of this nature, that have a significant impact on profit and loss for the period, are classified as non-recurring income and expenses.

Corporate income tax

The overall rate of the French CIT amounts to 34.43% (including 33 1/3% of CIT plus 3.3% of additional contribution based on the CIT amount).
The French budget law for 2018 provides for a gradual reduction of the corporate tax rate. For large companies, the 33 1/3%rate remains applicable in 2018 to taxable income exceeding EUR 0.5 million (28% rate applicable to the income below this limit). In 2019 the rate will decrease to 31% for taxable income exceeding EUR 0.5 million (28% rate for the income below this limit). However, according to the announcement made by the French prime minister in December 2018 such decrease could eventually be postponed for large companies and so the 33 1/3% rate could remain applicable in 2019. Afterwards, the rate will continue decreasing and apply respectively to the overall income without limitation at the rate of 28% in 2020, 26.5% in 2021 and 25% from 2022 onwards. The additional contribution of 3.3% remains applicable.
The deferred tax rate for French companies within the group Dexia Crédit Local changes to 25.825% (25% rate of CIT plus additional contribution) , keeping in mind that in any case no deferred tax assets are recognized.
The rate applicable on contributions of foreign branches or subsidiaries is the rate applied in the countries in which they operate.

Tax consolidation

Dexia Crédit Local is in the scope of the tax consolidation the parent company of which since January 1, 2002 has been the permanent establishment (Dexia ES) located in France.
Dexia ES is solely liable for corporation tax and its additional contributions to be paid by the group. DCL's tax expense is recorded in the accounts on stand alone basis, as if there were no tax consolidation.
The savings generated by the tax consolidation group are recorded at Dexia ES (out off DCL's scope).
An amendment to the tax treaty signed in 2011 between Dexia ES and Dexia Crédit Local allows the tax savings generated by Dexia Crédit Local and its subsidiaries to be reallocated to Dexia Crédit Local.
A second amendment signed in 2012 between Dexia ES and Dexia Crédit Local aims to exclude the subsidies received from Dexia ES when calculating the tax contribution of Dexia Crédit Local when they are neutralized within the framework of the overall consolidated tax result of the group.
However, this amendment will cease to apply from 1 January 2019 as a consequence of the French budget law for 2019 which disallows direct or indirect subsidies and debt write-offs granted between tax consolidated companies to be neutralized for the computation of the group's tax result.

Locations and activities in tax haven countries and territories

In compliance with Article L.511-45 of the French Monetary and Financial Code, it should be noted that Dexia Crédit Local has no offices (branches, subsidiaries or special purpose entities), affiliates or other exclusively or jointly controlled de facto or de jure interests in entities in countries that do not have administrative assistance agreements with France.

Company consolidating the financial statements of Dexia Crédit Local

Dexia, Place du Champ de Mars 5, B-1050 Brussels, Belgium.

2. Notes to the assets

2.1. Cash, balances with central bank and post offices (item I - assets)

a. Accrued interest

(in EUR million)	0

b. Detailed analysis, excluding accrued interest

(In EUR million)	As at 31/12/2017	As at 31/12/2018
Cash	0	0
Deposits with central banks and issuing institutions	404	796
Deposits with postal checking accounts	0	0
TOTAL	404	796

2.2. Government securities eligible for Central Bank refinancing (item II - assets)

a. Accrued interest

(in EUR million)	112

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2017	As at 31/12/2018	Less than 3	3 months to 1 year	1 to 5 years	Over 5 years
	2,663	6,452	0	0	93	6,359

c. Analysis by type of portfolio and movements for the year, excluding accrued interest

	Banking activity and other			Total
(in EUR million)	Held for trading	Available for sale	Held to maturity	
Costs as at 31/12/2017	**61**	**953**	**1,654**	**2,668**
Movements for the year:				
- acquisitions(1)	0	0	3,935	3,935
- disposals and redemptions	0	(124)	(135)	(259)
- transfers	0	0	0	0
- translation adjustments	0	(1)	(1)	(2)
- other(2)	1	62	48	111
Costs as at 31/12/2018	**62**	**890**	**5,501**	**6,453**
Impairment as at 31/12/2017	**0**	**(5)**	**0**	**(5)**
Movements for the year:				
- charges	0	0	0	0
- recoveries	0	4	0	4
- translation adjustments	0	0	0	0
- other	0	0	0	0
Impairment as at 31/12/2018	**0**	**(1)**	**0**	**(1)**
Net carrying amount as at 31/12/2018	**62**	**889**	**5,501**	**6,452**

Additional information concerning government securities is provided in note 2.5

(1) Acquisition of investment securities is exclusively related to the transfer of securities from DKD to DCL Dublin as part of the proposed disposal of Dexia Kommunalbank Deutschland (DKD)

(2) The other variation on held for trading are fair value variation and premium/discount variation for the assets classified as available for sale and held to maturity.

d. Transfers between portfolios

No transfers were made between portfolios in 2018

e. Listed and unlisted securities, excluding accrued interest

An analysis of listed and unlisted securities is presented in note 2.5.g.

2.3. Interbank loans and advances (item III - assets)

a. Accrued interest

(in EUR million)	
	1

b. Analysis by residual to maturity, excluding accrued interest

(in EUR million)	As at 31/12/2017	As at 31/12/2018	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Demand loans and advances	15,252	8,777	8,777	0	0	0
Term loans and advances	13,702	14,026	3,878	6,778	2,408	962
TOTAL	28,954	22,803	12,655	6,778	2,408	962

c. Analysis of non-performing loans, excluding accrued interest

No non-performing and litigious loans

d. Analysis by degree of subordination, excluding accrued interest

(in EUR million)	As at 31/12/2017	As at 31/12/2018
Subordinated interbank loans	223	0
Non-subordinated interbank loans	13,479	14,026
TOTAL	13,702	14,026

e. Analysis of subordinated non-performing loans, excluding accrued interest

No non-performing and litigious loans

f. Movements for the year of subordinated non-performing loans, excluding accrued interest

(in EUR million)	Montant
Cost as at 31/12/2017	**223**
Movements for the year:	
- acquisitions	0
- disposals and redemptions	(216)
- transfers	0
- translation adjustments	(7)
- other movements	0
Cost as at 31/12/2018	**0**
Impairment as at 31/12/2017	**0**
Movements for the year:	
- charges	0
- recoveries	0
- translation adjustments	0
- other movements	0
Impairment as at 31/12/2018	**0**
Net carrying amount as at 31/12/2018	**0**

2.4. Customer loans and advances (item IV - assets)

a. Accrued interest

(in EUR million)	
	172

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2017	As at 31/12/2018	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity or not analysed
	29,785	23,992	1,033	1,816	5,245	15,898	0

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c. Analysis by type of borrower, excluding accrued interest

(in EUR million)	As at 31/12/2017	As at 31/12/2018		
	Total	Public sector	Other sectors	Total
Performing loans	29,305	10,878	12,568	23,445
Restructured performing loans	0	0	0	0
Non-performing loans under collection	466	118	414	532
Doubtful non-performing loans	14	0	15	15
TOTAL	29,785	10,995	12,997	23,992

d. Analysis of non-performing loans, excluding accrued interest

VALUATION OF RISK (in EUR million)	As at 31/12/2017	As at 31/12/2018
Gross non-performing loans under collection	593	677
Accumulated impairment	(127)	(145)
NET NON-PERFORMING LOANS UNDER COLLECTION	466	532
Gross doubtful non-performing loans	68	70
Accumulated impairment	(54)	(55)
NET DOUBTFUL NON-PERFORMING LOANS	14	15

e. Analysis by degree of subordination, excluding accrued interest

(in EUR million)	As at 31/12/2017	As at 31/12/2018
Subordinated customer loans	0	0
Non-subordinated customer loans	29,785	23,992
TOTAL	29,785	23,992

f. Analysis of loans by type of counterparty, excluding accrued interest

(En EUR millions)	As at 31/12/2017	As at 31/12/2018
Encours brut - Sociétés non consolidées	0	0
Encours brut - Sociétés affiliées	0	0
Encours brut - Autres	29,785	23,992
TOTAL	29,785	23,992

2.5. Bonds and other fixed-income securities (item V - assets)

a. Accrued interest

(in EUR million)	231

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2017	As at 31/12/2018	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
	26,394	25,401	903	227	3,906	20,365

c. Analysis by type of issuer, excluding accrued intered

Analysis by type of issuer, excluding accrued intered (in EUR million)	Montant au 31/12/2017	Montant au 31/12/2018
Public sector issuers	14,931	13,222
Other issuers	11,463	12,179
TOTAL	26,394	25,401

d. Analysis by type of portfolio and movements for the year, excluding accrued interest

in EUR million	Banking activity and other Held for trading	Available for sale	Held to maturity	Total
COSTS AS 31/12/2017	**3,514**	**14,923**	**8,536**	**26,973**
Movements for the year:				
- acquisitions[1]	2	0	3,716	3,718
- disposals and redemptions	(1,069)	(3,744)	(967)	(5,780)
- transfers	(392)	392	0	0
- other movements[2]	(10)	(97)	151	44
- translation adjustments	50	471	226	747
COSTS AS 31/12/2018	**2,095**	**11,945**	**11,662**	**25,702**
IMPAIRMENT AS AT 31/12/2017	**0**	**(579)**	**0**	**(579)**
Movements for the year:				
- charges	0	(143)	(19)	(162)
- recoveries	0	247	0	247
- transfers[3]	0	205	0	205
- other movements	0	0	0	0
- translation adjustments	0	(12)	0	(12)
IMPAIRMENT AS AT 31/12/2018	**0**	**(282)**	**(19)**	**(301)**
NET CARRYING AMOUNT AS AT 31/12/2018	**2,095**	**11,663**	**11,643**	**25,401**

(1) Held for trading acquisitions are related to bonds borrowings used as collateral in refinancing operations.
(1) Acquisition of investment securities is exclusively related to the transfer of securities as part of the proposed disposal of Dexia Kommunalbank Deutschland (DKD) and the acquisition of the share issued by Crediop for EUR 2.6 billion.
(2) other movements in trading securities are related to changes in fair value and to the evolution of premium / discount on other portfolios
(3) The amount mentionned is completely offset with the flow "transfers" in note 3,5.

e. Analysis by type of portfolio

in EUR million	As at 31/12/17 Held for trading	Available for sale	Held to maturity	Total	As at 31/12/18 Held for trading	Available for sale	Held to maturity	Total
Government securities	**61**	**961**	**1,715**	**2,737**	**62**	**905**	**5,597**	**6,564**
Gross carrying amount	61	1,002	2,568	3,631	62	873	5,027	5,962
Premiums/discounts	0	(49)	(914)	(963)	0	17	474	491
Related receivables	0	13	61	74	0	16	96	112
Impairment	0	(5)	0	(5)	0	(1)	0	(1)
Market value	61	1,290	3,229	4,580	62	1,081	6,354	7,497
Bonds and other fixed-income securities	**3,514**	**14,504**	**8,658**	**26,676**	**2,095**	**11,780**	**11,757**	**25,632**
Gross carrying amount	3,514	14,990	9,251	27,755	2,095	12,068	12,137	26,300
Premiums/discounts	0	(67)	(715)	(782)	0	(123)	(475)	(598)
Related receivables	0	160	122	282	0	117	114	231
Impairment	0	(579)	0	(579)	0	(282)	(19)	(301)
Market value	3,514	17,193	11,467	32,174	2,095	14,250	14,894	31,239
Equities and other variable-income	**0**	**140**	**0**	**140**	**0**	**108**	**0**	**108**
Gross carrying amount	0	171	0	171	0	142	0	142
Premiums/discounts	0	0	0	0	0	0	0	0
Related receivables	0	0	0	0	0	0	0	0
Impairment	0	(31)	0	(31)	0	(34)	0	(34)
Market value	0	156	0	156	0	138	0	138
Total securities portfolio	**3,575**	**15,605**	**10,373**	**29,553**	**2,157**	**12,793**	**17,354**	**32,304**
PROVISIONS FOR RISKS AND CHARGES[1]	**0**	**829**	**0**	**829**	**0**	**996**	**0**	**996**

(1) The EUR 996 million provision for risks and charges is related to losses on hedges of available-for-sale securities. This provision is presented as a liability (see note 3.5)

f. Analysis by type of counterparty

in EUR million	As at 31/12/17 Held for trading	Available for sale	Held to maturity	Total	As at 31/12/18 Held for trading	Available for sale	Held to maturity	Total
Government securities	**61**	**961**	**1,715**	**2,737**	**62**	**905**	**5,597**	**6,564**
Central governments	61	809	1,557	2,427	62	876	5,593	6,531
Local governments	0	152	141	293	0	27	4	31
Credit institutions	0	0	17	17	0	2	0	2
Bonds and other fixed-income securities	**3,514**	**14,504**	**8,658**	**26,676**	**2,095**	**11,780**	**11,757**	**25,632**
Central governments	0	2,378	95	2,473	0	1,998	104	2,102
Local governments	1,368	5,757	5,505	12,630	0	5,278	6,030	11,308
Credit institutions	1,328	1,585	507	3,420	1,620	1,048	3,021	5,689
Other private-sector entities	818	4,784	2,551	8,153	475	3,456	2,602	6,533
Equities and other variable-income	**0**	**140**	**0**	**140**	**0**	**108**	**0**	**108**
Equities and other variable-income securities	0	55	0	55	0	24	0	24
Mutual funds	0	85	0	85	0	84	0	84
Total securities portfolio	**3,575**	**15,605**	**10,373**	**29,553**	**2,157**	**12,793**	**17,354**	**32,304**

g. Analysis by listing of securities

in EUR million	As at 31/12/17 Held for trading	Available for sale	Held to maturity	Total	As at 31/12/18 Held for trading	Available for sale	Held to maturity	Total
Government securities	**61**	**961**	**1,715**	**2,737**	**62**	**905**	**5,597**	**6,564**
Listed securities(1)	61	957	1,712	2,730	62	890	5,594	6,546
Unlisted securities	0	4	3	7	0	15	3	18
Bonds and other fixed-income securities	**3,514**	**14,504**	**8,658**	**26,676**	**2,095**	**11,780**	**11,757**	**25,632**
Listed securities(1)	363	6,021	3,735	10,119	95	3,598	6,641	10,334
Unlisted securities	3,151	8,483	4,923	16,557	2,000	8,182	5,116	15,298
Equities and other variable-income	**0**	**140**	**0**	**140**	**0**	**108**	**0**	**108**
Listed securities(1)	0	91	0	91	0	89	0	89
Unlisted securities	0	49	0	49	0	19	0	19
Total securities portfolio	**3,575**	**15,605**	**10,373**	**29,553**	**2,157**	**12,793**	**17,354**	**32,304**

(1) "Listed" means quoted on a securities exchange

h. Analysis by degree of subordination, excluding accrued interest

in EUR million	As at 31/12/2017	As at 31/12/2018
Subordinated bonds and other subordinated fixed-income securities issued by credit institutions	0	0
Subordinated bonds and other subordinated fixed-income securities issued by other issuers	0	30
Non-subordinated bonds and other non-subordinated fixed-income securities	26,394	25,371
TOTAL	**26,394**	**25,401**
of which: listed subordinated bonds and other listed subordinated fixed-income securities	0	0

i. Transfers between portfolios

(in EUR million)	From "Held for trading" to "Available for sale" portfolio
Carrying amount of assets reclassified as at transfer date[1]	422
Carrying amount of assets reclassified as at 31 december 2018	410
Fair value of reclassified assets as at 31 december 2018	408
Premium/Discount as at transfer date	0

j. Analysis of non-performing loans, excluding accrued interest

Valuation of risk (in EUR million)	As at 31/12/2017	As at 31/12/2018
Gross non-performing loans under collection	161	434
Accumulated impairment	(47)	(80)
NET NON-PERFORMING LOANS UNDER COLLECTION	114	354

2.6. Equities and other variable-income securities (item VI - assets)

a. Analysis by type of portfolio and movements for the year

	Banking activity and other		Total
(in EUR million)	Held for trading	Available for sale	
Costs as 31/12/2017	**0**	**171**	**171**
Movements for the year:			
- acquisitions	0	2	2
- disposals and redemptions[1]	0	(33)	(33)
- other movements	0	0	0
- translation adjustments	0	0	0
Cost as 31/12/2018	**0**	**140**	**140**
Impairment as at 31/12/2017	**0**	**(31)**	**(31)**
Movements for the year:			
- charges	0	(2)	(2)
- recoveries	0	1	1
- other movements	0	0	0
- translation adjustments	0	0	0
Impairment as at 31/12/2018	**0**	**(32)**	**(32)**
NET CARRYING AMOUNT AS AT 31/12/2018	**0**	**108**	**108**

(1) The total of EUR - 33 millions corresponds to the asset refund in investment funds for EUR 18 million of South European Infrastructure Equity Finance and for EUR 13 millions of Goldman Sachs Infrastructure Fund.

b. Transfers between porfolios (excluding insurance business)

No transfers were made between portfolios in 2018

c. Unrealised gains and losses on variable income securities

(in EUR million)	Carrying amount as at 31/12/2018	Market value as at 31/12/2018	Net unrealised capital gain as at 31/12/2018
SECURITIES	142	138	(4)

2.7. Long-term equity investments (item VII - assets)

a. Accrued interest

(in EUR million)	0

b. Analysis by type of issuer and movements for the year

(in EUR million)	Related parties	Other long-term equity investments	Total
Cost as at 31/12/2017	**3,919**	**13**	**3,932**
Movements for the year:			
- acquisitions	0	0	0
- disposals and redemptions[1]	(56)	(1)	(57)
- transfers	0	0	0
- translation adjustments	0	0	0
- other movements	0	0	0
Cost as at 31/12/2018	**3,863**	**12**	**3,875**
Impairment as at 31/12/2017	**(3,659)**	**(7)**	**(3,666)**
Movements for the year:			
- charges	0	0	0
- recoveries[2]	504	1	505
- reversals	0	0	0
- transfers	0	0	0
- translation adjustments	0	0	0
- other movements	0	0	0
Impairment as at 31/12/2018	**(3,155)**	**(6)**	**(3,161)**
NET CARRYING AMOUNT AS AT 31/12/2018	**708**	**6**	**714**

(1) Disposal of Dexia Israel of EUR 56 million.
(2) Recovery of securities of Dexia Kommunalbank Deutchland AG of EUR 504 millions following to SPA signature of disposal.

c. Listing of securities

(in EUR million)	Net carrying amount as at 31/12/2018	Market value as at 31/12/2018	Unrealised capital gain as at 31/12/2018
Listed securities	0	0	0
Unlisted securities	714		
TOTAL	**714**		

d. Significant investments

(in EUR million)	Gross carrying amount as at 31/12/2018	Impairment as at 31/12/2018	Net carrying amount as at 31/12/2018
Listed securities	0	0	0

Unlisted securities (in EUR million)	Gross carrying amount as at 31/12/2018	Impair-ment as at 31/12/2018	Net carrying amount as at 31/12/2018	% interest in capital	Interest in capital as at 31/12/2018	Last balance sheet date
TOTAL	**3,875**	**(3,161)**	**714**			
of which:						
DEXIA HOLDINGS Inc.	2,283	(2,283)	0	100,00%	(86)	31/12/2018
DEXIA KOMMUNALBANK DEUTSCHLAND AG	793	(289)	504	100,00%	888	31/12/2018
DEXIA CREDIOP	581	(581)	0	70,00%	576	31/12/2018
DEXIA FLOBAIL	197	0	197	100,00%	26	31/12/2018
DEXIA CLF REGIONS BAIL	8	0	8	100,00%	31	31/12/2018

2.8. Intangible assets (item VIII - assets)

Detailed analysis and movements for the year

(in EUR million)	Start-up costs	Other intangible assets	Total
GROSS CARRYING AMOUNT AS AT 31/12/2017	0	168	168
Movements of the year:			
- increases	0	34	34
- decreases	0	(19)	(19)
- other	0	0	0
- translation adjustments	0	1	1
GROSS CARRYING AMOUNT AS AT 31/12/2018	0	184	184
Amortisation and impairment as at 31/12/2017	**0**	**(138)**	**(138)**
Movements for the year:			
- charges	0	(14)	(14)
- recoveries	0	3	3
- other	0	0	0
- translation adjustments	0	(1)	(1)
Amortisation and impairment as at 31/12/2018	**0**	**(151)**	**(151)**
NET CARRYING AMOUNT AS AT 31/12/2018	0	33	33

Intangible assets primarily include software purchased and in-house software development costs that have been capitalised.

2.9. Tangible fixed assets (item IX - assets)

Detailed analysis and movements for the year

(in EUR million)	Land and buildings	Fixtures, equipment, furniture and vehicles	Other tangible non-current assets	Assets under construction and prepayments	Total
COST AS AT 31/12/2017	0	7	19	0	26
Movements of the year:					
- increases	0	0	1	0	1
- decreases	0	0	0	0	0
- other	0	0	0	0	0
- translation adjustmens	0	0	0	0	0
COST AS AT 31/12/2018	0	7	20	0	27
AMORTISATION AND IMPAIRMENT AS AT 31/12/2017	0	(6)	(18)	0	(24)
Movements for the year:					
- charges	0	0	(1)	0	(1)
- recoveries	0	0	0	0	0
- other	0	0	0	0	0
- translation adjustments	0	0	0	0	0
AMORTISATION AND IMPAIRMENT AS AT 31/12/2018	0	(6)	(19)	0	(25)
NET CARRYING AMOUNT AS AT 31/12/2018	0	1	1	0	2

2.10. Other assets and accruals (items XIII and XIV - assets)

Detailed analysis of other assets and accruals

(in EUR million)	As at 31/12/2017	As at 31/12/2018
OTHER ASSETS		
Premiums paid on swaptions issued	9	0
Premiums paid on options	4	1
Guarantee deposits paid(1)	22,404	21,533
Tax receivables	0	11
Deferred tax assets	37	0
Other non-current financial assets	0	0
Other	222	275
TOTAL OTHER ASSETS	22,676	21,819

(1) Guarantee deposits paid consist nearly entirely of collateral deposited under contracts with the primary counterparties trading on derivatives markets.

(in EUR million)	As at 31/12/2017	As at 31/12/2018
ACCRUALS		
Premiums and deferred charges on borrowings	63	79
Premiums on loans and other deferred charges on loans	115	101
Premiums and deferred charges on hedging transactions	1,042	724
Premiums and deferred charges on trading transactions	822	709
Accrued income on hedging transactions	583	646
Accrued income on trading transactions	4,097	3,599
Unrealised translation losses	266	350
Other accrued income	73	43
TOTAL ACCRUALS	**7,061**	**6,250**

2.11 - Analysis of assets by currency

Classification by original currency

(in EUR million)	As at 31/12/2018
In EUR	58,399
In other EU currencies	13,514
In all other currencies	36,972
TOTAL ASSETS	**108,885**

3. Notes to the liabilities and equity

3.1. Interbank borrowings and deposits (item I - liabilities and equity)

a. Accrued interest

(in EUR million)	37

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2017	As at 31/12/2018	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Demand deposits[1]	138	96	96	0	0	0
Term deposits	30,815	22,708	12,414	2,601	5,551	2,142
TOTAL	**30,953**	**22,804**	**12,510**	**2,601**	**5,551**	**2,142**

(1) Funding from central banks came to EUR 28,7 million as at 31 December 2018

3.2. Customer deposits (item II - liabilities and equity)

a. Accrued interest

(in EUR million)	0

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2017	As at 31/12/2018	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Demand deposits	0	0	0	0	0	0
Term deposits	8	1	0	0	0	1
TOTAL	**8**	**1**	**0**	**0**	**0**	**1**

c. Analysis by type of issuer, excluding accrued interest

(in EUR million)	As at 31/12/2017	As at 31/12/2018
Public sector	0	0
Other sectors	8	1
TOTAL	**8**	**1**

3.3. Debt securities (item III - liabilities and equity)

a. Accrued interest

(in EUR Million)	270

b. Analysis by residual maturity, excluding accrued interest

(in EUR Million)	As at 31/12/2017	As at 31/12/2018	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Interbank and other negotiable debt securities	66,093	63,968	9,414	17,850	27,165	9,539
Debt securities	4,534	4,058	2,315	0	1,397	346
TOTAL	**70,627**	**68,026**	**11,729**	**17,850**	**28,562**	**9,885**

As at 31 December 2018, Dexia Crédit Local's issues are covered by the State guarantee mechanism for EUR 65,5 billion.

c. Analysis by type of security and movements for the year, excluding accrued interest

(in EUR Million)	Interbank and other negotiable debt securitites	Debt securities	Securities borrowings	Total
AS AT 31/12/2017	**66,093**	**3,551**	**983**	**70,627**
Movements for the year:				
- new issues	21,913	913	0	22,826
- redemptions	(24,581)	(925)	(621)	(26,127)
- translation adjustments	543	142	15	700
- other	0	0	0	0
AS AT 31/12/2018	**63,968**	**3,681**	**377**	**68,026**

3.4. Other liabilities and accruals (item IV and V - liabilities and equity)

Details of other liabilities and accruals

Accruals and other liabilities (In EUR million)	As at 31/12/2017	As at 31/12/2018
OTHER LIABILITIES		
Guarantee deposits received[1]	3,234	3,015
Premiums on options sold	3	0
Other creditors	1,400	875
TOTAL OTHER LIABILITIES	**4,637**	**3,890**
ACCRUALS		
Deferred income on loans	51	105
Discounts recognised on purchase of receivables	11	10
Deferred income on hedging transactions	1,474	2,899
Deferred income on trading transactions	1,324	1,162
Deferred gains on hedging contracts	28	28
Accrued charges on hedging transactions	805	768
Accrued charges on trading transactions	4,293	3,773
Unrealised translation gains	197	196
Other deferred income	5	5
Other accrued charges	37	47
Other accrued liabilities	192	95
TOTAL ACCRUALS	**8,417**	**9,088**

(1) Evolution of cash collateral received

3.5. Provisions for risks and charges (item VI - liabilities and equity)

(in EUR million)	As at 31/12/2017	Charges	Recoveries	Transfers	Translation adjust-ments	As at 31/12/2018
PROVISIONS FOR RISKS AND CHARGES	**1,184**	**552**	**(649)**	**206**	**34**	**1,327**
Pensions and similar commitments(1)	2	2	(5)	1	0	0
Financing commitments	168	48	(166)	0	0	50
Other financial instruments(2)	829	387	(459)	205	34	996
Other risks and charges(3)	185	115	(19)	0	0	281
PROVISIONS FOR DEFERRED TAXES	**0**	**0**	**0**	**0**	**0**	**0**
REGULATED PROVISIONS(1)	**0**	**0**	**0**	**0**	**0**	**0**
Provisions for medium and long-term loans	0	0	0	0	0	0
Provisions for accelerated tax depreciation	0	0	0	0	0	0
Provisions for investments	0	0	0	0	0	0
TOTAL	**1,184**	**552**	**(649)**	**206**	**34**	**1,327**

(1) Provisions for termination benefits and long-service awards. The transfer amount corresponds to the termination benefits of employees transferred to Cognizant.
(2) Provisions for risks on other financial instruments are presented in note 2.5 d for the breakdown by type of portfolio.
(3) Other provisions for risks and charges in 2018 primarily include a provision relating to the loan desensitisation activity for EUR 111 million and a provision for risks of Dexia Crediop's participation of EUR 90 million.

3.6. Subordinated debt (item VIII - liabilities and equity)

a. Accrued interest

(in EUR million)	0

b. Movements for the year, excluding accrued interest

(in EUR million)	Total
AS AT 31/12/2017	**182**
Movements of the year ;	
- new issues	0
- redemptions	(19)
- translation adjustments	0
- other movements	0
AS AT 31/12/2018	**163**

c. Details of individual subordinated borrowings

Cur-rency	Maturity	Amount in millions	a) Early repayment conditions b) Subordination conditions c) Convertibility conditions	Interest rate (%)
EUR	12/02/19	106.4	a) Early repayment possible at each due date for interest payments with effect from 12/02/2014 after approval by the French Prudential Control Authority	Fixed rate 4.375 From 12/02/2014 Euribor 3M +0.72
			b) Repayment at per value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares	
			c) No conversion	
EUR	No fixed maturity	56.3	a) Early repayment possible at each due date for interest payments with effect from 18/11/2015 after approval by the French Prudential Control Authority	Fixed rate 4.30 from 2015 EURIBOR 3M +1.73
			b) Repayment at per value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares	
			c) No conversion	

3.7. Equity

Detailed analysis of equity

(in EUR million)	Amount
AS AT 31/12/2017:	
Capital stock	279
Additional paid-in capital	2,588
Commitments to increase capital stock and additional paid-in capital	0
Legal reserve	50
Non-distributable reserve	0
General reserves	0
Retained earnings	(1,034)
Translation adjustments	(229)
Net loss for the year	1,004
Interim dividends	0
EQUITY AS AT 31/12/2017	**2,658**
Movements for the year:	
Capital stock	
Additional paid-in capital	0
Commitments to increase capital stock and additional paid-in capital	0
Reserves and retained earnings(1)	1,004
Legal reserve	0
Non-distributable reserve	0
Translation adjustments	(26)
Dividends paid (-)	0
Net loss for the year	647
Other movements	(1,004)
AS AT 31/12/2018	
Capital stock	279
Additional paid-in capital	2,588
Commitments to increase capital stock and additional paid-in capital	0
Legal reserve	50
Non-distributable reserve	0
General reserves	0
Retained earnings	(30)
Translation adjustments	(255)
Net profit for the year(2)	647
Interim dividends	0
EQUITY AS AT 31/12/2018	**3,279**

(1) The Ordinary General Meeting on 16 May 2018 resolved to allocate the EUR 1 004 million gains for 2017 to retained earnings, bringing the latter to EUR -30 million.
(2) A proposal was submitted to the ordinary shareholders' meeting on 14 May 2019 to allocate the net profit for the year to retained earnings.

3.8. Analysis of liabilities and equity by currency

Classification by currency of origin (in EUR million)	**As at 31/12/2018**
In EUR	58,877
In other EU currencies	13,514
In all other currencies	36,494
TOTAL LIABILITIES AND EQUITY	**108,885**

3.9. Other notes to the balance sheet

Transactions with related parties - Analysis by type

(In EUR million)			Total	Of which, related parties[(1)]
Assets	Items III and IV	Interbank loans and advances and Customer loans and advances	46,967	11,590
	Items V, VI and VII	Securities held	26,454	22
	Items XIII and XIV	Other assets and accruals	28,069	707
Liabilities	Items I and II	Interbank borrowings and deposits and customer deposits	22,842	1,271
	Items III	Debt securities	68,296	0
	Items VIII	Subordinated debt	163	0
	Items IV and V	Other liabilities and accruals	12,978	456

(1) Related parties correspond to those from the Dexia Group's consolidation scope.

4. Notes to the off-balance sheet items

4.1. Financing commitments given (item I - off balance sheet)

This item includes financing commitments given and commitments given on securities and on loaned foreign currencies. Financing commitments on loans and lines of credit include loans approved but not disbursed as at 31 December 2018.

Analysis by type of beneficiary

(in EUR million)	As at 31/12/17	As at 31/12/18
Commitments to credit institutions	5,800	815
Commitments to customers	1,568	1,054
Currencies lent but not yet delivered	450	0
TOTAL	**7,818**	**1,869**

4.2. Guarantee commitments given (item II - off-balance sheet)

a. Analysis by type of beneficiary

(in EUR million)	As at 31/12/17	As at 31/12/18
Commitments to credit institutions	1,530	1,323
Commitments to customers	2,542	2,040
TOTAL	**4,072**	**3,363**

b. Analysis by type of transaction

(in EUR million)	As at 31/12/17	As at 31/12/18
Guarantee commitments given:		
- guarantees	4,072	3,363
- endorsements	0	0
- liens on assets	0	0
TOTAL	**4,072**	**3,363**

c. Contingent liabilities and risks and losses not quantifiable at the date of preparation of the financial statements

At the date when the annual financial statements were prepared, there were no contingent liabilities, risks or losses that were not quantifiable.

4.3. Assets pledged as collateral (item III - off balance-sheet)

(in EUR million)	As at 31/12/2017[1]	As at 31/12/2018[1]
As collateral for debts and commitments of the company	0	0
Balance sheet liabilities	0	0
Off-balance sheet items	31,141	27,103
TOTAL	**31,141**	**27,103**

(1) Carrying amount of the assets pledged.

4.4. Financing and guarantee commitments received (item IV and V - off-balance sheet)

These items include all financing commitments and guarantees received from credit institutions, and commitments received on securities and foreign currency borrowings.

(en millions d'EUR)	As at 31/12/2017	As at 31/12/2018
Financing commitments received from credit institutions	4,453	4,652
Currencies borrowed but not yet received	548	0
Guarantees received from credit institutions	1,943	1,728
Guarantees received from local authorities or claims on local authorities acquired as guarantees	3,472	2,296
Other commitments received	10,670	9,233
TOTAL	**21,086**	**17,909**

4.5. Commitments related to securities (item VI - off-balance sheet)

a. Analysis by type of transaction

(in EUR million)	As at 31/12/17	As at 31/12/18
Purchases		
- spot	0	0
- forward	0	0
Sales		
- spot	0	0
- forward	0	0
TOTAL	**0**	**0**

b. Isolated open positions

Unrealised gains on isolated open positions	0

4.6 - Commitments related to foreign currency transactions (item VII - off-balance sheet)

Spot and forward currency transactions are presented at their value in their accounting currency, translated at the closing foreign exchange rate at year-end.
The line "Foreign currencies to be received" amounted to EUR 28,5 billion and the line "Foreign currencies to be delivered" to EUR 28.1 billion as at 31 December 2018.

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4.7. Commitments related to forward and derivative financial instruments (item VIII - off-balance sheet)

a. Analysis by type of use and instrument

Type of transaction (in EUR million)	As at 31/12/2017	As at 31/12/2018	Hedging		Trading		Fair value as at 31/12/2018
			Micro-hedging	Macro-hedging	Isolated open position	Specialised trading portfolio management	
Foreign currency instruments[1]	28,109	28,083	7,339	15,022	1,252	4,470	(253)
- forward currency purchases and sales	15,472	14,339	0	13,610	729	0	0
- currency and interest rate swaps	12,637	13,744	7,339	1,412	523	4,470	(253)
- currency futures	0	0	0	0	0	0	0
- currency options	0	0	0	0	0	0	0
- forward currency agreements	0	0	0	0	0	0	0
Other financial instruments	274,778	259,479	70,570	76,271	1,215	111,423	(12,244)
Interest rate instruments[2]							
- interest rate swaps	269,270	255,884	68,333	76,271	43	111,237	(12,299)
- futures	1,202	508	0	0	464	44	0
- forward rate agreements	0	0	0	0	0	0	0
- interest rate options	1,638	660	518	0	0	142	(59)
Other forward purchases and sales[3]							
- other options	2,668	2,427	1,719	0	708	0	114
- other futures	0	0	0	0	0	0	0
- other forward purchases and sales	0	0	0	0	0	0	0
TOTAL	**302,887**	**287,562**	**77,909**	**91,293**	**2,467**	**115,893**	**(12,497)**

(1) Amount to be delivered
(2) Face value / notional amount.
(3) Purchase / selling price agreed between the parties

b. Analysis by type of market

Type of transaction (in EUR million)	Over -the-counter market	Organised market	Total as at 31/12/2018
Foreign currency instruments	28,083	0	28,083
Other financial instruments:			
- interest rate instruments	257,008	44	257,052
- other forward purchases and sales	2,427	0	2,427
TOTAL	**287,518**	**44**	**287,562**

c. Analysis of forward contracts and options

Type of transaction (in EUR million)	Forward contracts	Options	Total as at 31/12/2018
Foreign currency instruments	28,083	0	28,083
Other financial instruments:			
- interest rate instruments	256,448	604	257,052
- other forward purchases and sales	1,914	513	2,427
TOTAL	**286,445**	**1,117**	**287,562**

d. Analysis by residual maturity

Type of transaction (in EUR million)	Up to 1 year	1 to 5 years	Over 5 years	Total at at 31/12/2018
Foreign currency instruments	15,780	2,330	9,973	28,083
Other financial instruments:				
- interest rate instruments	64,671	69,585	122,796	257,052
- other forward purchases and sales	0	380	2,047	2,427
TOTAL	**80,451**	**72,295**	**134,816**	**287,562**

e. Off-balance sheet forward transactions, including securities, currencies and other forward and derivative financial instruments

Commitments related to interest rate derivatives are recorded in compliance with ANC Regulation 2014-07

• forward contracts are carried at the nominal value of the contracts ;

• options are carried at the nominal value of the underlying instrument.

Dexia Crédit Local uses forward financial instruments as part of the three following strategies:

• Asset liability management

This includes all transactions intented to cover and manage the total interest rate exposure of the Company. ALM is carried out primarily through the use of swaps and futures contracts.

• Specific hedging

Hedges are used to cover interest rate risks on a specific item or a group of items with similar characteristics, identified at the outset.

Intruments meeting this definition consist primarily of swaps acquired as micro hedges of primary issues, bonds in the available for sale or held to maturity portfolios, and Customer loans. The hedging instruments have the effect of creating synthetic variable or adjustable-rate assets or liabilities, which are immunised against interest rate risks.

Foreign currency swaps are also classified as hedges when they are used to transform sources of funding in one currency into the currency used in the transactions they finance in the goal of reducing currency risk.

• Position management

The position management strategy includes two types of activities:

- specialist trading portfolio management ;
- position-taking.

The specialist trading portfolio management activity includes all transactions entered into with local authorities and the symmetrical transactions executed with banking counterparties. The transactions include primarily interest rate swaps. Specialised duration management is employed for the transactions included in this activity.

Derivatives held in the position-taking portfolio are intented to keep isolated open positions in order to take advantage of any favourable movements in interest rates or exchange rates. These transactions include primarily interest rate swaps and forward foreign exchange transactions.

f. Risk monitoring

Risk is measured by the Risk Management department. The main risk indicator used by Dexia Crédit Local, and throughout the entire Dexia Group, is VaR. The VaR calculated by the Dexia Group measures the potential loss over a 99% confidence interval over a 10-day period. The risk management system consists of allocating to each entity, and for each type of financial market activity, the following items:

• a list of foreign currencies and transactional structures likely to be used;

• a VaR limit.

4.8. Transactions with related parties

Analysis by type

(in EUR million)			Total	Of which, related parties[1]
Off-balance sheet	Item I	Financing commitments given	1,869	1,103
	Item II	Guarantee commitments given	3,363	1,234
	Item IV	Financing commitments received	4,652	0
	Item V	Guarantee commitments received	13,257	0
	Items III, VI, VII et VIII	Other commitments given and received	343,533	567

(1) Related parties are entities included within the consolidation scope of the Dexia Group.

5. Notes to the income statement

5.1. Interest income and interest expense (items I and II - income statement)

(in EUR million)		As at 31/12/17	As at 31/12/18
INTEREST INCOME ON:			
Interbank loans	(a)	265	256
Customer loans and advances	(b)	795	1,614
Bonds and other fixed-income securities	(c)	1,279	1,141
Macro hedging transactions	(d)	761	953
TOTAL INTEREST INCOME		**3,100**	**3,964**
INTEREST EXPENSE ON:			
Interbank borrowings and deposits	(a)	(531)	(582)
Customer deposits	(b)	(128)	(1,009)
Bonds and other fixed-income securities	(c)	(824)	(882)
Macro hedging transactions	(d)	(1,213)	(1,040)
TOTAL INTEREST EXPENSE		**(2,696)**	**(3,513)**
NET INTEREST EXPENSE		**404**	**451**

a. Interest income and expense on interbank transactions

This item includes EUR 26 million on transactions with related parties.
It also includes an expense relating to the sovereign guarantee amounting to EUR 33 million in 2018 (EUR 38 million in 2017).

b. Interest income and expense on customer transactions

Interest income and expense on customer loans and deposits represented a net amount of EUR 605 million.
It also includes EUR 68 million in income from financing commitments and guarantees.

c. Interest income and expense on bonds and other fixed-income securities

The heading includes EUR 1 141 million in accrued interest on bonds and other fixed-income securities, amortisation of discounts and premiums on held-to-maturity and available-for-sale securities, and the related hedging gains and losses on these securities.
Interest expense amounted to EUR 882 million for Dexia Crédit Local.
In addition to interest expense on bonds and other fixed-income securities, the heading also includes interest rate hedging gains and losses on specifically identified negotiable debt, bond and subordinated debt issues.

d. Income and expense on macro-hedging transactions

Income and expense on macro-hedging transactions amounted to EUR 953 million and EUR 1 040 million respectively.

5.2. Income from variable-income securities (item III - income statement)

(in EUR million)	As at 31/12/17	As at 31/12/18
Related parties	49	0
Other related parties and long-term investments	4	4
Equities and other variable-income securities	1	0
TOTAL	54	4

5.3. Analysis of fees and commissions (items IV and V - income statement)

a. Analysis of fee and commission income (item IV - income statement)

Type (EUR million)	As at 31/12/17	As at 31/12/18
Loans	0	1
Other financial services	1	0
TOTAL	1	1

b. Analysis of fee and commission expenses (item V - income statement)

Type (EUR million)	As at 31/12/17	As at 31/12/18
Loans	0	0
Corporate actions	(8)	(8)
Other financial services	(5)	(5)
TOTAL	(13)	(13)

5.4. Analysis of gains and losses on portfolio transactions (item VI - income statement)

(in EUR million)	As at 31/12/17	As at 31/12/18
Gains (losses) on:		
- held-for-trading securities	10	7
- foreign currency transactions	73	(20)
- other financial instruments	(89)	(282)
Sub-total	**(6)**	**(295)**
- available-for-sale and similar securities(1)	933	251
Sub-total	**933**	**251**
- Held-to-maturity securities	**62**	**67**
Sous-total	**62**	**67**
TOTAL	989	23

(1) This line includes gains and losses on disposal and charges of recoveries from provisions in respect of the available-for-sale securities, as well as gains and losses on portfolio securities.

Gains and losses on disposal and charges or recoveries from provisions on portfolio securities are as follows:

(in EUR million)	As at 31/12/17	As at 31/12/18
- charges to impairment	(414)	(462)
- recoveries of impairment	1,299	685
Sub-total	**885**	**223**
- disposal losses	(605)	(654)
- disposal gains	653	682
Sub-total	**48**	**28**
TOTAL	933	251

5.5. General operating expenses (item IX - income statement)

a. Detailed analysis

(in EUR million)	As at 31/12/17	As at 31/12/18
Personnel costs	**(125)**	**(92)**
• Salaries and wages	(73)	(67)
• Social security	(39)	(30)
• Restructuring cost	(13)	5
Other administrative expenses	**(186)**	**(215)**
• Taxes and duties	(61)	(71)
• Other administrative expenses	(125)	(144)
TOTAL	(311)	(307)

b. Employee Information

	31/12/2017	31/12/2018
Total employee as at 31 December(1)	**683**	**554**
- executive management	42	47
- other management	507	389
- administrative personnel	134	118
Personnel costs (in EUR million)(1)	**(128)**	**(96)**
- salaries and direct benefits	(76)	(71)
- payroll taxes	(23)	(20)
- other personnel costs	(29)	(5)
Provisions for pensions (in EUR million)	**3**	**4**
- charges (-)	(2)	(2)
- recoveries (+)	5	6
TOTAL	(125)	(92)

(1) In November 2017, employees in charge of information technologies were transferred to Cognizant. On May 1st, 2018, employees in charge of market and credit back offices were also transferred to Cognizant.

5.6. Cost of risk (item XI - income statement)

(in EUR million)	Charges and losses	Reversals and recover	Total as at 31/12/18
Provisions for impairment and losses on loans	(158)	109	(49)
Provisions for risks	(105)	119	14
Regulatory provisions	0	0	0
TOTAL	(263)	228	(35)

The cost of risk stands at EUR -35 million in 2018 and essentially made of:
- a specific provision decrease of EUR -13 million on customer loans relating to desensitization loan,
- a provision of EUR -90 million related to the valuation of the DEXIA CREDIOP securities
- a debt recovery relating to the dossier Hypo Alpe Adria Bank (HETA) for EUR +23 million.
- an impact of EUR +71 million related to change in estimate of collective loan provisions
- an additionnal provisionning of EUR -72 million for Chicago Board of Education exposures

5.7. Net gains (losses) on non-current assets (item XII - income statement)

(in EUR million)	As at 31/12/17		Total as at 31/12/2017	As at 31/12/18		Total as at 31/12/2018
	Affiliated entreprises	Others		Affiliated entreprises	Others	
Charges to impairment	(233)	0	(233)	0	0	0
Recoveries of impairment(1)	0	0	0	504	0	504
SUB-TOTAL	**(233)**	**0**	**(233)**	**504**	**0**	**504**
Disposal losses	0	0	0	0	0	0
Disposal gains(2)	0	71	71	24	0	24
SUB-TOTAL	**0**	**71**	**71**	**24**	**0**	**24**
TOTAL	**(233)**	**71**	**(162)**	**528**	**0**	**528**

(1) The amount of EUR 504 million corresponds to the reversal of provision on Dexia Kommunalkredit Deutchland AG securities.
(2) Realized gain of EUR 24 million linked to Dexia Israel disposal.

5.8. Other banking income and expenses

a. Other banking income (item VII - income statement)

(in EUR million)	As at 31/12/2017	As at 31/12/2018
Other banking income	0	0
Other miscellaneous income	2	0
TOTAL	**2**	**0**

b. Other banking expenses (item VIII - income statement)

(in EUR million)	As at 31/12/2017	As at 31/12/2018
Other banking expenses	(1)	0
Other miscellaneous expenses	(9)	0
TOTAL	**(10)**	**0**

5.9. Non-recurring items (item XIII - income statement)

(in EUR million)	As at 31/12/2017	As at 31/12/2018
Non-recurring income(1)	0	11
Non-recurring expenses	0	0

(1) Reimbursement of insurance relating to claim compensations

5.10. Corporate income tax (item XIV - income statement)

a. Analysis of tax expense

(in EUR million)	As at 31/12/17	As at 31/12/18
Corporate income tax	(5)	(3)
Deferred taxes	(1)	1
TAXES ON NET INCOME FOR THE YEAR (A)	**(6)**	**(2)**
Provisions for tax litigation	(1)	0
OTHER TAXES (B)	**(1)**	**0**
TOTAL (A) + (B)	**(7)**	**(2)**

In 2018, the tax rate used for France was 25,825%. The tax rate applicable to foreign branches is generally lower.

In the light of Dexia Crédit Local's position and the likelihood of its ability to recover deferred taxes, deferred taxes have been accrued.

b. Exceptions to the general valuation principles, as provided for by tax law

(in EUR million)	As at 31/12/17	As at 31/12/18
REGULATORY PROVISIONS	0	0
Provision for medium - and long-term loans	0	0
Provision for investments	0	0
ACCELERATED TAX DEPRECIATION	1	0

c. Tax consolidation

The Dexia établissement stable(Dexia ES) in France has been head of the tax consolidation group that includes Dexia Crédit Local since 2002.

An amendment to the tax convention between Dexia ES and Dexia Crédit Local, signed in 2011, now allows the tax savings generated by Dexia Crédit Local and its subsidiaries to be reallocated to Dexia Crédit Local.

In terms of calculating Dexia Crédit Local's tax contribution, a second amendment, signed between Dexia ES and Dexia Crédit Local in 2012, is intented to eliminate subsidies received from Dexia ES when they are neutralised in connection with the tax consolidation group's overall earnings.

5.11. Financial relationships with members of the Management Board and the Board of Directors

(in EUR million)	
COMPENSATION PAID TO THE MEMBERS OF THE MANAGEMENT BOARD AND THE BOARD OF DIRECTORS OF THE COMPANY IN RESPECT OF THEIR FUNCTIONS WITHIN THE COMPANY AND ITS SUBSIDIARIES AND ASSOCIATED COMPANIES	
Management Board	2.5
Board of Directors	0
TOTAL	2.5

AMOUNT OWED, CONTINGENT LIABILITIES IN THEIR FAVOUR AND OTHER MATERIAL COMMITMENTS UNDERWRITTEN IN THEIR FAVOUR	
Management Board	0
Board of Directors	0
TOTAL	0

5.12. Analysis by geographical region and line of business

Analysis by geographical region

	As at 31/12/2018		
(en millions d'EUR)	Net banking income (loss)	Gross operating income	Net income (loss)
France	107	(153)	(285)
Foreign branches	359	298	932
TOTAL	466	145	647

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6. Subsidiaries and equity investments as at 31 december 2018

Company	Capital Stock	Additional paid-in capital, reserves and retained earnings	Revenue or net banking income (loss) for last fiscal year	Net income (loss) for last fiscal year
1 - DETAILS OF SUBSIDIARIES AND EQUITY INVESTMENTS WHOSE CARRYING AMOUNT EXCEEDS 1% OF DEXIA CRÉDIT LOCAL'S CAPITAL STOCK				
A - SUBSIDIARIES (50% TO 100% OF EQUITY)				
(in EUR)				
Dexia Crediop Via Venti settembre N. 30 I00187 Roma	450,210,000	450,165,884	(49,244,980)	(77,762,759)
Dexia Holdings INC.[1] 445 Park Avenue, 7th floor NY 10022 New York	2,309,770,446	(2,400,872,584)	4,762,126	4,627,581
Dexia Kommunalbank Deutschland AG[2] Charlottenstr. 82 - D 10969 Berlin	432,500,000	263,894,847	148,120,840	191,430,242
Dexia Flobail 1 Passerelle des Reflets - Tour Dexia La Défense 2 92913 La Défense	197,100,166	(181,997,288)	4,216,318	11,339,395
Dexia CLF Régions Bail 1 Passerelle des Reflets - Tour Dexia La Défense 2 92913 La Défense	7,625,000	25,356,282	2,857,324	(1,917,346)

(1) Companies that produce financial statements only under IFRS.

(2) All securities of Dexia Kommunalbank Deutschland were transferred from DCL Paris to DCL Dublin on February 2018.

2 – GENERAL INFORMATION				
A - OTHER SUBSIDIARIES NOT INCLUDED IN SECTION 1-A				
- French companies				
- Foreign companies				
B - OTHER SUBSIDIARIES AND EQUITY INVESTMENTS WHERE EQUITY IS LESS THAN 10%				
- French companies				
- Foreign companies				

Interest in equity (%)	Carrying amount of stock		Dividends received by Dexia Crédit Local during the fiscal year	Loans and advances granted by Dexia Crédit Local	Guarantees given by Dexia Crédit Local	Activity
	Gross	Net				
70.00%	581,223,585	0	0	4,892,801,485	874,920,515	Bank, credit institution
100.00%	2,283,076,144	1	0	109,370,899	0	Holding company
100.00%	793,339,376	504,000,001	0	61	0	Bank, credit institution
100.00%	197,111,054	197,111,054	0	267,844,601	947,110,799	Lease financing of local investments
100.00%	7,941,401	7,941,401	0	383,919,553	225,169,009	Real estate leasing

	1,250,592	237,496	0	236,997,206	2,643,650	
	2,680,147	469,065	335,570	0	0	
	8,759,173	4,629,422	288,385	194,353,810	11,761,129	
	0	0	0	0	0	

Statutory auditors' report on the financial statements

For the year ended December 31st, 2018

To the annual general meeting of Dexia Crédit Local,

Opinion

In compliance with the assignment entrusted to us by your annual general meeting, we have audited the accompanying financial statements of Dexia Crédit Local for the year ended December 31st, 2018.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position as at December 31st, 2018 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit committee.

Basis for opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "*Statutory Auditors' Responsibilities for the Audit of the Financial Statements*" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1st, 2018 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of ethics (code de déontologie) for statutory auditors.

Justification of Assessments – Key Audit Matter

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

The ability to continue as a going concern used for the preparation of the financial statements *(We refer to the note 1.2 in the notes to the Financial Statements)*	
Key Audit Matter	**How our audit addressed the key audit matter**
Dexia Crédit Local's ability to continue as a going concern is based on the revised orderly resolution plan of the Dexia Group, approved by the European Commission on 28 December 2012. This plan, further reassessed by the Board of Directors of 19 December 2018, is based amongst others on the following assumptions: – the underlying macro-economic assumptions to the business plan are reviewed as part of the semi-annual reviews of the orderly resolution plan, which also include a review of the latest observable market data and a review of the latest accounting standards and regulatory developments. In its latest update, the business plan is based on market data as of 30 June 2018, as well as the non-renewal, as from 1 January 2019, of the specific approach applied by the European Central Bank for the supervision of the Dexia Group; – the business plan assumes the preservation of the banking license of the different entities composing the Group and of the credit rating of Dexia Credit Local; – the continuation of the resolution plan assumes that Dexia Crédit Local maintains a good funding capacity, which relies in particular on the appetite of investors for the debt guaranteed by the Belgian, French and Luxembourg States as well as on Dexia Crédit Local's capacity to raise secured borrowings; – discussions are occurring between the European Commission and the Belgian and French States, on the renewal of the States guarantee as from 1 January 2022; – finally, Dexia Crédit Local is sensitive to the evolution of its macro-economic environment and to market parameters, including exchange rates, interest rates and credit spreads, of which fluctuations are likely to impact the business plan; As of today, uncertainties remain about the realization of the business plan supporting the ability to continue as a going concern for Dexia Crédit Local. Consequently, we consider the ability to continue as a going concern used for the preparation of the financial statements as a key audit matter.	We have examined the latest evaluation made by the Management Board and the Board of Directors of Dexia Crédit Local to continue as a going concern for a period of twelve months starting at the closing date of the exercise as well as the elements used to justify the evaluation and its underlying documentation: We have applied, amongst others, the diligences prescribed by the French professional standard "*Going Concern*" (norme d'exercice professionnel NEP 570 "*Continuité d'exploitation*"): – we have assessed the elements on which the liquidity projections were estimated by Dexia Crédit Local until December 2020, based on the available related documentation and on inquiries with management. – we have considered the main regulatory ratios as of 31 December 2018 (*Liquidity Coverage Ratio, Common Equity Tier 1*) considering the requirements applicable to the Dexia Crédit Local Group. – We have inquired the Management Board and the Board of Directors regarding the latest underlying assumptions to the revised business plan, based on end of June 2018 data and presented to the Board of Directors on 19 December 2018. As mentioned in note 1.2, as of today, uncertainties exist on the realization of this business plan, besides the macro-economic factors, that are amongst other related to: • the conditions to access the Eurosystem financing facilities after 2021; • the renewal of the States/ shareholders' funding guarantee as from January 1st, 2022, on which the Belgian and French States have started discussions. We have been made aware of the notification on 25 February 2019 by the States to the European Commission of a project of a new guarantee, which is still being discussed and is subject to validation procedures in Belgium and in France, and which is ultimately subject to an agreement between Dexia and the two States; • the future organizational structure of the Dexia Crédit Local group. – we have considered the quarterly reports on the financing strategy and the operational continuity, established by Dexia Crédit Local as requested by the European Central Bank. Finally, we have examined the compliance with the legal and regulatory requirements of the information related to the going concern in the notes of the consolidated financial statements.

Operational risks linked to the information systems
(We refer to the note 1.4 in the notes to the Financial Statements.)

Key Audit Matter	How our audit addressed the key audit matter
Dexia Crédit Local is dependent, for its operational activities, on the reliability and security of its information systems. The activity of Dexia Crédit Local is also seen in the specific context of the management of the existing assets portfolios in rundown, in the context of the orderly resolution plan validated by the European Commission on December 28, 2012. With this background and to ensure operational continuity, Dexia Credit Local has outsourced its IT function (development, production and infrastructure) and back-offices to an external service provider. Dexia Credit Local, during 2018, has also decided to outsource the upgrade and management of the IT infrastructure to the same service provider. In this specific context, the management of operational risk linked to information systems performance, and to accounting and finance data automated treatment are considered as a key audit matter.	The assessment of the general IT controls used throughout the accounting and financial data-flow chain is a key step in our audit approach. The audit work performed wihtin the external service provider organization with the assistance of our IT specialists, namely consisted in: – understanding the structure of the IT landscape and the processes and controls related to the production of the accounting and financial information; – examining the way Dexia Crédit Local handled the impacts of IT incidents that occurred during the accounting period and the related corrective actions implemented; – assessing the operating effectiveness of general IT controls (access right management to the applications and data, change management and application development, and management of the IT operations), and the key automated controls on significant information systems (mainly the credit and market applications, accounting, automated reconciliation between the management data and accounting data,…); – performing detailed procedures on manual journal entries, related to the write access rights of manual entries, and to the review of the supporting documentation justifying the nature and input of manual entries; – understanding the control and supervisory framework currently being implemented by Dexia Credit Local related to the services rendered by the external service provider in the context of the outsourcing. Finally, we have reviewed the information presented in the notes to the Financial Statements related to the operational risks with relation to the information systems

Assessment of credit risk and evaluation of impairments
(We refer to the notes 1.2, 2.3, 2.4, 3.5, 5.6 in the notes to the Financial Statements)

Key Audit Matter	How our audit addressed the key audit matter
Dexia Crédit Local is exposed to credit risk due to the inability of its clients to meet their financial obligations. Once there is an objective evidence of impairment, the risk is translated in the accounts by the recording of impairments on the related assets and by the recording of provisions on the related off-balance sheet commitments. Firstly, Dexia Crédit Local determines specific impairments and provisions based on an estimation of the individual risk of non-recoverability and of the loss given default. In addition, for the assets portfolios considered as sensitive, placed on watch list and not individually impaired, or for the assets with an identified incurred sectorial risk, a collective impairment is estimated, based on statistical models including professional judgment in the different stages of the calculation, especially for the definition of homogenous assets portfolios and for the determination of the risk parameters used in the impairment models. As at December 31, 2018, the gross outstanding amount of non-performing loans under collection and doubtful non-performing loans amounts to 747 million euros, the specific impairment amount to 200 million euros and the collective impairment amounts to 50 million euros. The cost of risk of Dexia Crédit Local is a profit of 35 million euros. We have considered the assessment of credit risk and evaluation of impairments as a key audit matter considering the substantial amount of impairment and provisions in the Financial Statements, the significant impact of the judgements applied by the management both for the determination of the carrying amounts of the outstanding assets and for the determination of the recorded impairment and provisions.	We have reviewed the adequacy of the control process related to credit risk and tested the operating effectiveness of the key controls implemented by the management. The key controls are mainly related to the identification and monitoring of loans and advances to be impaired, the monitoring of doubtful and restructured loans, to the compliance with the accounting principles defined by Dexia for the assessment of impairments, to the quality and the traceability of the data, to the calculations and to the data-flow from the management and risk systems to the accounting system. For the performance of our audit work on the impairments and provisions at closing date, we have taken into consideration the materially significant single outstanding exposure and/or the most materially significant assets portfolios subject to professional judgment by Dexia Crédit Local during the determination of the impairments and provisions. The tests include amongst others: – the identification of credit files with objective evidence of credit risk: we have assessed the level of credit risk on a sample of credit files estimated performing by the management, – the assessment of the specific individual impairments: we have assessed, for a sample, the assumptions retained by the management in the estimation of the recorded impairments; – the assessment of collective impairment: we have assessed the relevance of methodologies used, more specifically the aggregation of assets with similar exposures. We have also examined the information presented in the notes to the Financial Statements on the credit risk.

Valuation of financial instruments *(We refer to the notes 1.2, 2.5, 4.7, and 5.4 in the notes to the Financial Statements)*	
Key Audit Matter	**How our audit addressed the key audit matter**
In conducting its market activities, Dexia holds financial instruments as assets and liabilities recorded at market value. These instruments are recorded at fair market value estimated by valuation models, for which the parameters are either unobservable nor can be corroborated directly with publicly available market data. The market value is determined according to different approaches depending on the nature and complexity of the instrument: use of directly observable quoted prices, valuation models with predominantly observable parameters or valuation models with largely unobservable parameters. The value calculated may be subject to additional value adjustments to take into account certain specific market, liquidity or counterparty risks. The methods used by the Management to value these instruments include therefore a significant part of professional judgment regarding the defined methodologies and the choice of valuation parameters. Financial instruments amount to 287,6 billion euros recorded in off-balance accounts as at 31 December 2018. The bonds and other fixed-income securities represent an asset of 25,6 billion euros as at 31 December 2018. Due to the substantial outstanding amounts and the use of professional judgment during the estimation of the market value, we have assessed that the evaluation of the financial instruments is a key audit matter, especially for instrument valuation that require using unobservable parameters.	We have assessed the adequacy of the key controls, defined and implemented by Dexia Crédit Local in the context of the valuation of financial instruments including those relating to: - the assessment of uncertainty risk linked to the use of valuation models: we have verified the existence of a cartography of the models and have assessed the documentation of the quantification of the uncertainty risk related to the use of these models, as well as the documentation of the priority criteria's applied in defining the periodicity of the review of the models; - the independent check of the valuation parameters: we have amongst others analyzed the relevance of the data sources used and we have assessed the hierarchy of these sources; - the estimation of fair value adjustments: we have assessed amongst others the relevance of the methodologies used, conducted an analytical review of the impacts and examined the reconciliation with the accounting data. We have relied on our valuation experts to perform, based on a sample basis: - an analysis of Dexia Crédit Local's own assessment of the uncertainty risk related to the use of valuation models; - an analysis of the relevance of the valuation parameters withheld; - the independent validation of valuation by using our own models. We have assessed the design of the tool used for the calculation and exchange of collaterals on financial derivatives and we have analyzed the main differences in valuations with the counterparties in order to comfort our assessment of the reliability of Dexia Crédit Local's valuation models. Finally, we have examined the information included in the notes to the Financial Statements regarding the fair value hierarchy.

Documentation and effectiveness of the hedging relationships *(We refer to the notes 1.2 et 4.7 in the notes to the Financial Statements)*	
Key Audit Matter	**How our audit addressed the key audit matter**
In conducting its financing activities, Dexia Crédit Local has decided to cover the risk of change in fair value or change in cash-flows of its assets and liabilities by using hedging derivatives. The designation of a hedging relationship is defined by the French accounting Framework, in particular the following conditions must be met: – the documentation of the characteristics of the hedged item, of the hedging instrument, and of the type of hedging relationship designated; – the justification of the use of hedge accounting by the performance of efficiency quantitative testing supporting the hedging relationship. As at 31 December 2018, the off-balance sheet notional amount of hedging derivatives represents 169 910 million euros. Considering the significant amount of the off-balance sheet commitments in the Financial Statements, we consider the documentation and effectiveness of the hedging relationships as a key audit matter.	We have assessed the relevance of the internal control system and the governance related to the documentation and the effectiveness testing of the hedging relationships. Our audit work consisted in, amongst others: – the documentation of the hedging relationships; – the identification of the hedged portfolios and hedging instruments; – the process to perform the effectiveness tests supporting the hedging relationships designated over time; – the principles of derecognition of hedging relationships. Our work on the outstanding relationships at closing date focused on the following: – the reconciliation of the outstanding amounts per management accounting with the outstanding amounts per financial accounting; – the review of the effectiveness tests and the recording of the related inefficiency; – the analytical review of the variation of the OIS/BOR ineffectiveness over the year. We have involved our hedge accounting specialists to review, based on a sample, the methodologies and the documentation of hedging relationships. In addition, we have assessed if the methodology applied by Dexia Crédit Local complies with the French standards on the accounting treatment of hedging relationships when a sale of a hedged instrument occurs. We have also assessed the accounting impacts related to the termination of hedging relationships or allocation of hedging instruments to new relationships. -Finally, we have examined the information included in the notes of the Financial Statements relating to the risks arising from the hedging relationships.

Valuation of long-term equity investments *(We refer to the notes 1.1, 1.2, 2.7 and 5.7 in the notes to the Financial Statements)*	
Key Audit Matter	**How our audit addressed the key audit matter**
Long-term equity investments are recorded in the balance sheet for a net book value of 714 million euros. Long-term equity investments are recorded individually at their least acquisition value or value in use, i.e. the fair value based on the utility of the investment to Dexia Crédit Local. The value in use represents how much the company would accept to pay in order to obtain its shares if it had to purchase them considering its ownership objective. It is mainly determined based on a discounted cash flows methodology. When the value in use of the investment is worth less than the net book value, an impairment is recorded as the difference between the value in use and the net book value. In the event of a negative value in use, Dexia Crédit Local then assesses the need to impair the receivables linked to the investment, or to book a provision up to its commitments. Considering the materiality of long-term equity investments recorded in the balance sheet, the sensitivity of models used to changes of data and assumptions on which estimation are based, we have considered the valuation of participation interests as a key audit matter.	The work performed consisted in: – Assessing the valuation methods and the quantitative data used by the management to determine the value in use. – Assessing the relevance of the discounting index used; – Testing, based on a sample, the accuracy of the calculation method used by the company to determine the value in use. – Examine the sale and purchase agreements projects, if any, and their implications for the valuation of long-term equity investments. Finally, we have examined the information included in the note of the Financial Statements relating to the long-term equity investments.

Specific Verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations.

Information given in the management report and in the other documents with respect to the financial position and the financial statements provided to Shareholders

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the other documents with respect to the financial position and the financial statements provided to Shareholders.

Concerning the fair presentation and the consistency with the financial statements of the disclosures provided in relation to the payment terms referred to in article D. 441-4 of the French Commercial Code, we have the following matter to report: as indicated, these disclosures do not include banking and related transactions as the Company considers that such disclosures are not within the scope of the information to be provided.

Report on Corporate Governance

We attest that the Board of Directors' report on corporate governance sets out the information required by Articles L.225-37-3 and L. 225-37-4 of the French Commercial Code. Concerning the information given in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code (code de commerce) relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from controlling and controlled companies. Based on these procedures, we attest the accuracy and fair presentation of this information.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed as statutory auditors of Dexia Crédit Local by the general annual meetings held on 16 May 2008 for Deloitte & Associés and 28 June 1996 for Mazars.
As at 31 December 2018, Deloitte & Associés and Mazars were in the 11th year and 23rd consecutive year of their engagement, respectively.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Financial Statements

Objectives and Audit Approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

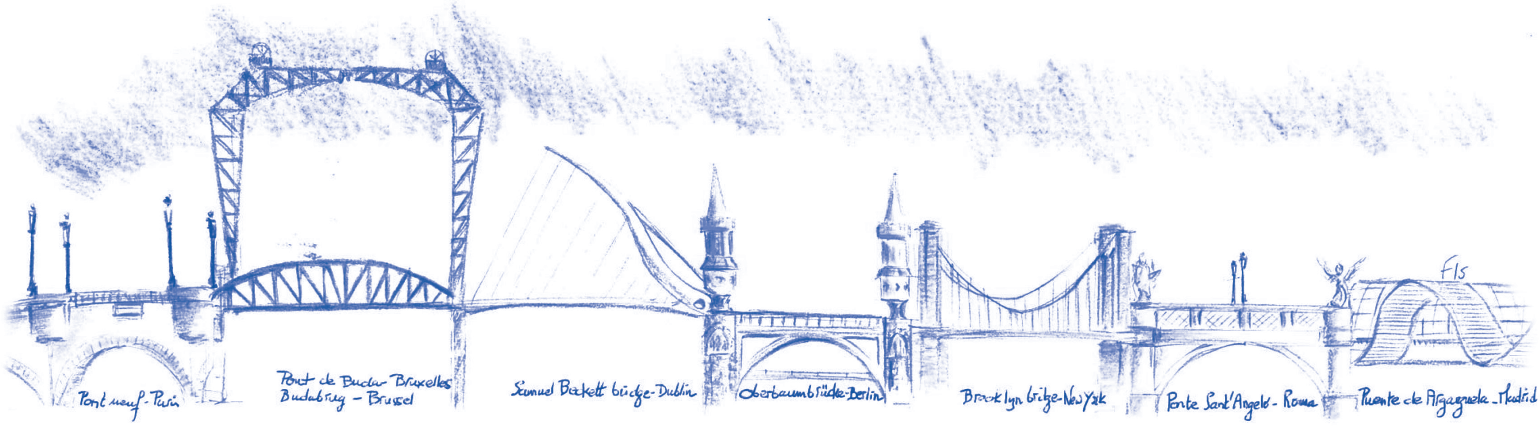
Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code (code de commerce) and in the French Code of Ethics (code de déontologie) for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards. We submit a report that outlines the scope of the audit work as well as the work program implemented, and conclusions arising from the work performed. We also disclose, when appropriate, the significant weaknesses of internal control that we have identified with respect to the procedures relating to the preparation and processing of accounting and financial information.

Paris la Défense and Courbevoie, April 16, 2019

French original signed by the statutory auditors

DELOITTE & ASSOCIES		MAZARS	
Pascal COLIN	Jean-Vincent COUSTEL	Franck BOYER	Claire GUEYDAN



General information

Legal and administrative information

1. Regarding the company

Company history	Dexia Crédit Local was one of the three principal entities of the Dexia Group, the Franco-Belgian financial group created in 1996 through the merger of Crédit Local de France and Crédit Communal de Belgique, two credit institutions specialised in the financing of local governments and participants in local economies. Dexia Crédit Local, set against the major restructuring of the Group and the implementation of the Group's orderly resolution plan, is the main subsidiary of the Dexia Group.
Corporate name **Trade name**	As specified in its by-laws, the Company's corporate name is Dexia Crédit Local. The Company uses the trade name Dexia.
Country of origin **Incorporation date and term**	The country of origin of the Company is France. It was incorporated in Paris on 28 August 1989 for a term of 99 years.
Registration number	The Company is registered with the Clerk of the Commercial Court of Nanterre under no. 351 804 042, and its APE business identifier code is 6492Z.
Registered office	Since 1 March 2007, the Company's registered office and principal place of business has been located at: Tour CBX La Défense 2 - 1, Passerelle des Reflets, 92913 La Défense, France (tel: +33 1 58 58 77 77).
Legal form **Applicable legislation**	Legal form Applicable legislation Dexia Crédit Local is a French limited company (société anonyme) with a Board of Directors, as governed by Articles L.225- 17 et seq. of the French Commercial Code and Article L.511-1 of the French Monetary and Financial Code.
Business purpose	The purposes for which the Company is established are: • to conduct in France and abroad any and all credit operations promoting local development, including notably public services and facilities, mainly for the benefit of local governments and public-sector corporations, local government-backed agencies, local semi-public companies, concessionary public service companies and, more generally, agencies carrying out development and housing schemes, or which have entered into an agreement with a local government for the construction or management of local public facilities; • to carry out, for the benefit of the above parties, insurance brokerage activities and any advisory and assistance work in matters of financial management, financial engineering and, more generally, to offer any and all services to facilitate their financial management subject to the legislative provisions relating to the exercise of certain regulated professions; • to receive cash deposits from local governments and local public entities in accordance with the regulations applicable to such bodies; • to hold the funds lent to customers, pending their use; and • to issue debt securities in France and abroad in order to fund the Company's lending operations. For this purpose, the Company may: • create subsidiaries; • hold shares in companies whose activities are likely to facilitate the achievement of the Company's business purpose; • create and manage guarantee funds to ensure repayment of loans made to the agencies mentioned in the first paragraph of this section. The Company may also carry out any and all transactions falling within the scope of its business purpose on behalf of agencies and institutions set up to serve the public interest.
Fiscal year	The Company's fiscal year begins 1 January and ends 31 December.

Appropriation of net income	Net income for the year, less any prior-year losses and the appropriations provided for in Article 37 of the by-laws (5% for the legal reserve prescribed by law) plus any retained earnings, is available for distribution to shareholders. The shareholders' meeting determines the fraction of income available for distribution to be paid out to shareholders in the form of dividends, based on the recommendations of the Board of Directors. The balance of income available for distribution, if any, is allocated either to retained earnings or to one or more reserves, by resolution of the Shareholders' Meeting, which also approves the use to be made of said reserves. The shareholders' meeting may also resolve to pay dividends out of distributable reserves; in this case, the related resolution must clearly indicate from which reserves the dividends are to be taken. Insofar as possible, dividends are, however, taken first from distributable income for the period. The terms and conditions for payment of dividends are set by the share-holders' meeting or, failing that, by the Board of Directors, but dividends must be paid within nine months of the fiscal year-end, unless this period is extended by order of the President of the French Commercial Court ruling on an application by the Board of Directors. Notwithstanding the foregoing, and in the cases provided for by applicable legislation, the Board of Directors is authorised to pay interim dividends to be deducted from the total dividends for the year just ended or the current year, prior to the approval of the related financial statements. The amounts and payment dates of such interim dividends will be decided by the Board of Directors. When the final dividend is set, the shareholders' meeting will be responsible for verifying that the provisions of the above-mentioned paragraph have been fully complied with in respect of the total dividend (including any interim dividend).
Shareholders' meetings	**Notice of shareholders' meetings** Shareholders' meetings are called in accordance with applicable regulations. They are conducted at the Company's registered office or any other location mentioned in the meeting notice. All shareholders are entitled to obtain copies of the documents they need to be able to make informed decisions and to make a reasoned assessment of the management and control of the Company. The types of documents concerned and the rules governing their transmission to or consultation by shareholders are prescribed by law and all applicable regulations. **Right to attend shareholders' meetings** TAll shareholders are entitled to attend shareholders' meetings upon presentation of proof of identity, provided that their shares are fully paid-up. Shareholders may choose to be represented by another shareholder. Proxies should be filed at the registered office at least five days before the shareholders' meeting. **Voting rights** Shares carry voting rights based on the proportion of capital represented. Each share entitles the owner to one vote. Each person present at the shareholders' meeting is entitled to exercise one vote for each share held and for each share for which he or she holds a proxy.
Place where Company's legal documents may be viewed **Responsibility for information**	All documents and information concerning the Company may be consulted at its registered office. Please address any requests to: Wouter Devriendt, Chief Executive Officer Véronique Hugues, Executive Vice-President (+33 1 58 58 69 39).

2. Outlook[1]

Recent events	Despite the significant progress made by the Dexia Group since the end of 2008 with a view to reducing the severe financial imbalances which had weakened it at the time, 2011 represented a very difficult turning point for the Group due to a further deterioration in the markets. The acceleration of the sovereign debt crisis in the eurozone had called into question the underlying assumptions and the effective completion of the initial transformation plan mapped out in 2008. To take this deteriorated environment into consideration, in October 2011 the Dexia Group announced and implemented an orderly resolution plan for its activities in order to avoid a rapid deterioration in its liquidity position and the materialisation of a systemic risk for the Belgian and French States, as well as the entire European banking sector. This orderly resolution plan, under which the Group's assets are to be managed on a run-off basis, is based essentially on two aspects: the disposal of Dexia's main operating entities and the provision of a funding guarantee by the Belgian, French and Luxembourg States. 2012 was primarily marked by the implementation of the various sections of this plan and its consequences in terms of the change of scope, purpose and governance for the Dexia Group. The Dexia Group's revised resolution plan was approved by the European Commission on 28 December 2012. This marked a decisive step forward for the implementation of this plan, with this validation paving the way for the EUR 5.5 billion capital increase by Dexia SA and the scheme set up for a tripartite liquidity guarantee of EUR 85 billion by the Belgian, French and Luxembourg States, allowing Dexia Crédit Local to refinance itself on the capital markets and to manage its orderly resolution over the long term. After the considerable efforts made to dispose of its main commercial franchises and to restore the diversity of its funding sources, the Dexia Crédit Local group continued to simplify its structure. Indeed, in May 2017 Dexia Crédit Local signed an agreement with Cognizant to outsource its IT and back office activities in France. Implementation of this agreement was pursued in 2018. Furthermore, in 2018, Dexia pursued the reduction of its asset portfolios and the simplification of its international network.
Trends	Subject to the risks and contingencies identified in the present Reference Document, the Dexia Group and Dexia Crédit Local in particular will be moving forward with the implementation of the principles set out in the Group's revised orderly resolution plan, as approved by the European Commission on 28 December 2012. Dexia Crédit Local no longer has any commercial activities in it previous markets, including the public sector financing. After having sold the main part of its commercial franchises, the Group will focus now on the run-off management of outstanding loans, using the guarantee mechanism from the abovementioned States, and the desensitising of sensitive structured loans.
Control	To the best of the Company's knowledge, no agreement exists – including under the terms of the restructuring plan in effect – whose implementation could, at a later date, bring about a change in its control.
Legal and arbitration proceedings	Readers are invited to refer to the text presented on pages 28 to 30 of this report concerning litigations.
Material changes	Since the last fiscal year for which audited financial statements have been published, the Dexia Group continued the implementation of its orderly resolution plan. In this context, it proceeded with the sale of some of its commercial franchises.
Major contracts	The Company currently has no material contracts (other than those entered into as part of the normal course of its business) that may give any member of the Group a right or obligation with a material impact on its ability to fulfil its obligations to holders of issued securities.

(1) The forward-looking elements presented in this section must not be interpreted as guarantees that the forward-looking information will prove accurate or that the desired results will be achieved. The forward-looking statements include a certain number of risks, which may or may not be known or established, but remain subject to contingencies, notably resulting from changes in the macroeconomic environment within which the Dexia Group operates. If they were to materialise, these risks could result in the Group's future development, performance and results being different from the objectives suggested and set out.

Declaration of the person responsible for the registration document *(document de référence)*

The person responsible for the Dexia Crédit Local registration document (document de référence) is:
Wouter Devriendt, Chief Executive Officer of Dexia Crédit Local.

Declaration of the person responsible for the registration document (document de référence)

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

Hereby declare, after having taken all reasonable measures to this end, that, to the best of my knowledge, the information contained in this registration document is accurate and contains no omission that would alter its meaning.

Hereby declare, to the best of my knowledge, that the financial statements have been prepared in accordance with all applicable accounting standards and present a true and fair view of the assets, financial position and results of the Company and of all the companies included in the scope of consolidation, and that the management report on page 2 of this document presents a true and fair view of changes in the revenues, results and financial position of the Company and of all the companies included in the scope of consolidation and a description of the main risks and uncertain-ties to which they are exposed.

I have obtained an audit opinion from the Statutory Auditors in which they state that they have verified the information concerning the financial position and the accounts provided in this document and have reviewed the entire document.

La Défense, 29 April 2019

Wouter Devriendt
Chief Executive Officer

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** In accordance with Article 28 of Commission Regulation (EC) no. 809-2004, for reference purposes we have included the financial data for the year ended 31 December 2016, and the Statutory Auditors' reports on the consolidated and annual financial statements for that period, presented respectively on pages 154 and 192 of the 2016 registration document (filed on 27 April 2017 with the French Financial Markets Authority under D.17-0448).*

*** In accordance with Article 28 of Commission Regulation (EC) no. 809-2004, for reference purposes we have included the financial data for the year ended 31 December 2017, and the Statutory Auditors' reports on the consolidated and annual financial statements for that period, presented respectively on pages 148 and 190 of the 2017 registration document (filed on 27 April 2018 with the French Financial Markets Authority under D.18-0437).*

Dexia Crédit Local's registration document 2018 has been published by the Communication Department.
This report is also available in French.
In case of discrepancy between the English and the French versions of the registration document,
the text of the French version shall prevail.
Due to environmental concern, Dexia Crédit Local decided not to print its annual report.
It can be downloaded on *www.dexia-creditlocal.fr*

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