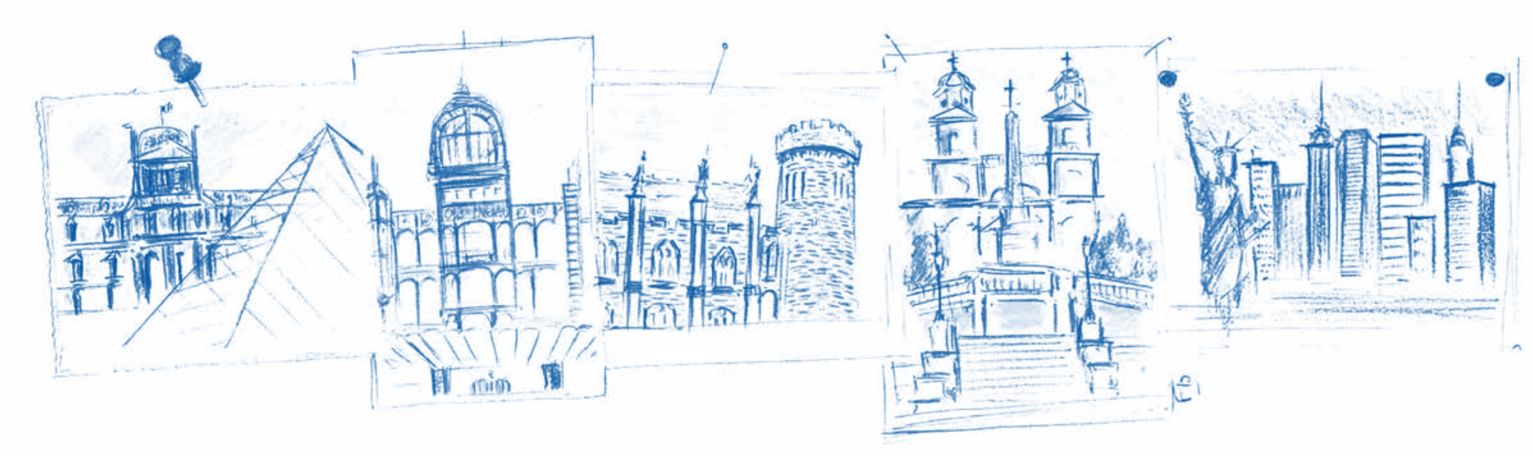
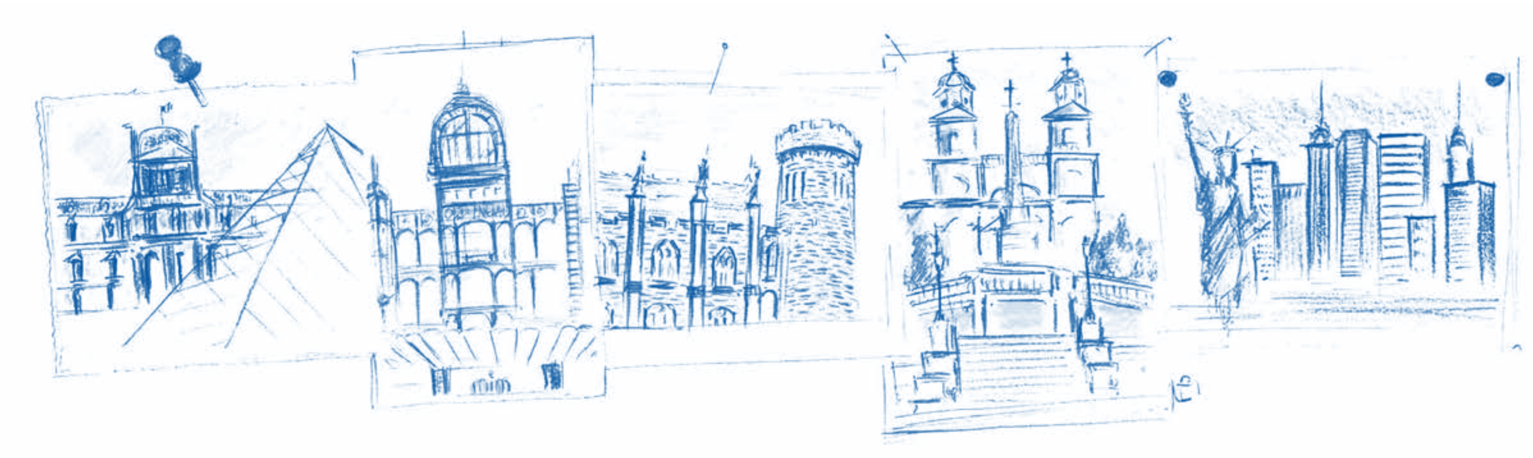
2019

ANNUAL REPORT

DEXIA CRÉDIT LOCAL DCL



Annual report 2019



Management report

Message from the Chairmen

2019 will have been another year of strong macroeconomic uncertainty: the Sino-American trade war, the Brexit issue, and the slowdown in world growth induced in particular by China's slowdown, will all have been factors of fragility, despite the support provided to the economic situation by persistently negative interest rates and the good health of the equity market.

Throughout the past year, we continued to roll out our strategic roadmap and took further steps towards the Group's resolution by accelerating our efforts to reduce our portfolios, in particular through the implementation of two ambitious asset disposal programmes. We reduced our balance sheet total by 24% to EUR 119 billion and saw our asset portfolios fall below EUR 50 billion. Thus, in a favourable market dynamic and in order to reduce the operational risk linked to the transfer of Dexia Crédit Local's US assets to the head office, the bank sold its entire student loan ABS portfolio and assets related to the US public sector. The portfolio is now equally composed of loans and bonds and is mainly focused on Italian sovereign and European public sector (Italy, France, Spain, Portugal), with a residual concentration of Japanese and British assets.

Our efforts also focused on reducing our geographic footprint: we finalised the sale of our German subsidiary Dexia Kommunalbank Deutschland to Helaba, closed our Madrid branch and began the transformation of our New York branch.

Other highlights of the past year included the Belgian and French States reaffirming their support for the Dexia Group by finalising the steps with a view to the prolongation of the funding guarantee beyond 31 December 2021 and, in September, the European Commission confirmed its agreement to the extension of this guarantee.

The first months of the current year were in line with 2019. We continued the transformation of our New York branch into a representative office, which should be concluded in the course of the year, and began a reflection on the evolution of Dexia Crediop within the context of the Group's resolution.

At the time of closing this annual report, it is too early precisely to assess the long-term economic effects and draw up a definitive health assessment of the Covid-19 pandemic which is raging throughout the world, even if the consequences of the epidemic are already being painfully felt in many countries.

Our first objective, in this unprecedented situation, was to protect the health of our staff members and ensure the operational continuity of the bank. Dexia Crédit Local staff members mobilised in the face of adversity. Their sustained commitment and their reactivity enabled us, in the space of only a few days, to move to a level of 100% teleworking, demonstrating once again the resilience of our teams.

It is natural to wonder about the impact of this major crisis on Dexia Crédit Local. Our liquidity situation is entirely satisfactory, with a liquidity buffer close to EUR 20 billion as at 31 December 2019 and a continued active presence on various markets. It is too early to assess the full impact of the crisis for Dexia Crédit Local, but the strength of its capital base and the intrinsic quality of its asset portfolio, 90% of which is rated investment grade, make us confident in our ability to continue the orderly resolution.

We are well aware that the implementation of this complex resolution in a situation of great economic uncertainty is only made possible, day after day, year after year, thanks to the unfailing commitment and responsiveness of Dexia Crédit Local staff members. We cannot thank them enough for their contribution.

Bart Bronselaer
Chief Executive Officer ad interim

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 Italian subsidiary, Dexia Crediop, and its branches in Ireland and the United States.

The Dexia Crédit Local Group has 550 members of staff as at 31 December 2019.

The Group's parent company, Dexia, is a public limited company (*société anonyme*) and financial company governed by Belgian law. The Belgian and French States own 99.6% of the Group[2]. Dexia has been under the direct prudential supervision of the European Central Bank within the framework of the Single Supervisory Mechanism (SSM)[3] 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 annual report Dexia Crédit Local refers to Dexia Crédit Local S.A. and Dexia refers to Dexia SA/NV.
(2) In 2012, the Belgian and French States increased Dexia's capital with EUR 5.5 billion.
(3) Regulation (EU) No. 468/2014 of the European Central Bank of 16 April 2014.

Simplified 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 and Ireland

Dexia Crediop
99.57%

Dexia Nederland
100%

Management Board

Ad interim CEO
Bart Bronselaer

Assets
Guy Cools
Executive Vice-President

Finance & Communication
Véronique Hugues
Executive Vice-President

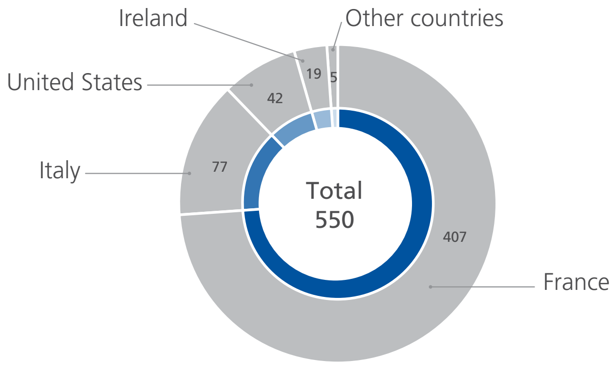
Risk
Giovanni Albanese
Executive Vice-President

Funding & Markets
Benoît Debroise
Executive Vice-President

Operations & IT
Patrick Renouvin
Executive Vice-President

Key figures

MEMBERS OF STAFF AS AT 31 DECEMBER 2019



RESULTS (in EUR million)	2018	2019
Net banking income	(68)	(631)
Costs	(365)	(358)
Gross operating income	(433)	(989)
Cost of risk	128	265
Result from discontinued operations, net of tax	22	(117)
Net income Group share	(256)	(784)

BALANCE SHEET (in EUR billion)	31/12/2018	31/12/2019
Balance sheet total	158.4	119.4
Total asset portfolio	79.9	49.6

SOLVENCY (in EUR million)	31/12/2018	31/12/2019
Common Equity Tier 1	7.012	6.269
Total Capital	7.134	6.325
Risk-weighted assets	30.182	26.706
Common Equity Tier 1 ratio	23.2%	23.5%
Total Capital ratio	23.6%	23.7%

RATINGS AS AT 31 DECEMBER 2019	Long term	Outlook	Short term
Dexia Crédit Local			
Fitch	BBB+	Stable	F1
Moody’s	Baa3	Stable	P-3
Moody’s – Counterparty Risk (CR) Assessment	*Baa3(cr)*		*P-3(cr)*
Standard & Poor’s	BBB	Stable	A-2
Dexia Crédit Local (guaranteed debt)			
Fitch	AA-	-	F1+
Moody’s	Aa3	Stable	P-1
Standard & Poor’s	AA	-	A-1+

Highlights

Since its entry into orderly resolution, Dexia Crédit Local has been implementing a proactive strategy of reducing business and the balance sheet through the sale of its commercial franchises and asset portfolios. The year 2019 represents an important stage in this dynamic, in particular because of the conclusion of the sale of Dexia Kommunalbank Deutschland (DKD), its subsidiary in Germany, the closure of DCL Madrid and the launch of the project to transform the US branch of Dexia Crédit Local (DCL New York) into a representative office. In addition, in May and July, the Dexia Group took structuring decisions on two new asset disposal programmes which contributed to a sharp reduction of the bank's balance sheet and liquidity requirements without deteriorating its solvency ratios. Dexia Crédit Local took advantage of favourable market conditions, particularly in the United States, to implement this strategy, which will continue into 2020.

Reduction of the balance sheet and simplification of the Dexia Crédit Local Group structure

Reduction of the asset portfolios

At the end of December 2019, asset portfolios were down EUR 31 billion compared to the end of December 2018, of which EUR 14 billion related to the sale of DKD, EUR 14 billion to disposals and early redemptions and EUR 2 billion to natural amortisation. The share of assets denominated in non-euro currencies is significant and amounts to 76% of total sales for the year.

Within the framework of the DCL New York transformation project and in order to facilitate the transfer of the entity's balance sheet to Dexia Crédit Local's head office in Paris, the Dexia Board of Directors decided to dispose of a significant portfolio of assets held by that branch (cf. section "Simplification of the Dexia Crédit Local Group's international scope"). Furthermore, on 19 July 2019, the Dexia Board of Directors validated the implementation of a second asset sale programme, relating to nominal outstanding of EUR 10.4 billion. This programme takes place against a background of changing and strengthening regulatory requirements applicable to Dexia Crédit Local and reflects a prudent approach to risk management. In particular, it targets sales, which will enable Dexia Crédit Local to reduce its exposure to currency liquidity risk, while preserving its solvency situation.

These two strategic decisions taken by the Board of Directors led to a change in the business model applicable to the selected portfolios. As a consequence, the assets concerned, which had been classified at amortised cost on first-time application of IFRS 9, were reclassified at fair value through profit or loss (FVP&L) or at fair value through equity (FVOCI) on 1 July 2019 for the asset portfolio recorded in DCL New York's balance sheet and on 1 January 2020 for the second portfolio.

During the year, in view of favourable market dynamics, Dexia Crédit Local sold EUR 7.7 billion of US assets. Assets sold include the remaining portfolio of ABS on student loans (EUR 1.1 billion) as well as public sector assets (EUR 5.1 billion). The entirety of Dexia Crédit Local's exposure to the Chicago Board of Education was thus bought back or sold.

Dexia Crédit Local also sold Japanese assets (EUR 1.4 billion), loans to French local authorities (EUR 0.6 billion) and loans to UK social housing (EUR 0.6 billion).

The planned disposals under these two programmes will ultimately reduce Dexia Crédit Local's risk exposure and balance sheet sensitivity, although in the meantime the reclassification of these assets at fair value exposes Dexia Crédit Local more than ever to changes in macroeconomic conditions. Moreover, the Dexia Board of Directors confirmed its intention to hold Dexia Crédit Local portfolios of residual assets until their maturity, portfolios to which a "Held to Collect" IFRS model will continue to apply.

Simplification of the Dexia Crédit Local Group's international scope

Following the restructuring undertaken in 2016 and the transfer of all assets to the head office in Paris in 2018, i.e. 434 loans, Dexia Crédit Local proceeded with the transfer of the residual balance sheet (EUR 35 million, of which EUR 20 million of deferred tax assets) and the definitive closure of its Madrid branch on 29 March 2019, without impact on the consolidated financial statements.

On 2 May 2019, after obtaining all the regulatory approvals, Dexia Crédit Local also concluded the sale of DKD to Helaba for a total amount of EUR 352 million, thus reducing its balance sheet total by EUR 24.4 billion. The net impact of the sale on Dexia Crédit Local's income statement, booked as at 30 June 2019, amounts to EUR -115 million. The impact on the solvency ratios is slightly positive and amounts to +15 basis points.

Dexia Crédit Local has terminated the standby letters granted to DKD, with effect from the closing date of the sale. DKD now operates under the name of KOFIBA-Kommunalfinanzierungsbank GmbH.

Finally, after a study phase conducted in 2018, Dexia Crédit Local started, at the beginning of 2019, to implement the transformation of its New York branch. This project, which is part of the process of reducing Dexia Crédit Local's geographic footprint and operational simplification, has three components:

• The transfer to the Dexia Crédit Local head office of the asset portfolios, funding and derivatives linked to these operations. This transfer was successfully completed in July and related to nominal assets of EUR 0.9 billion, consisting of 50 loans and one security. In October 2019, 151 securities representing nominal outstanding of EUR 4.5 billion were transferred to Dexia Crédit Local, the operational risk having been reduced by the sales of US assets initiated in the second half of 2019;

- The centralisation of management processes in Paris and Dublin;
- The transformation, during the first half of 2020, of Dexia Crédit Local New York into a representative office. EUR 13 million of restructuring provisions were booked in 2019 to cover the costs related to this in-depth transformation of Dexia Crédit Local's US activities.

Increase of the capital of Dexia Crediop

The end of the specific approach granted by the European Central Bank required a strengthening of the equity of Dexia Crediop, the Italian subsidiary of Dexia Crédit Local, due in particular to the obligation to respect the Liquidity Coverage Ratio (LCR), and resulted in the implementation of a new funding plan. In order to ensure compliance with the bank's solvency ratios, an Extraordinary Shareholders' Meeting of Dexia Crediop was held on 22 November 2019 and approved a capital increase of EUR 120 million consisting of the issue of 12 billion new ordinary shares without nominal value, at a subscription price per share of EUR 0.01.

As the minority shareholders of Dexia Crediop, Banco BPM SpA and BPER Banca SpA, did not wish to participate in this capital increase, Dexia Crédit Local subscribed to the entire amount, thus increasing its stake in Dexia Crediop from 70% to 99.57%. The impact of this capital increase on the prudential equity of Dexia Crédit Local is negligible. On the other hand, taking into account the absence of future profitability for Dexia Crediop, the value of the Dexia Crédit Local holding in this entity was brought to zero in the statutory accounts of Dexia Crédit Local at the end of December 2019.

Evolution of Dexia Crédit Local's governance

On 4 February 2019, the Dexia Crédit Local Board of Directors appointed Claire Cheremetinski as a director of Dexia Crédit Local, replacing Lucie Muniesa.

On 25 February 2019, the Dexia Crédit Local Vice-President appointed Patrick Renouvin to succeed Aline Bec as Executive Vice-President and Chief Operating Officer of Dexia Crédit Local as from 1 May 2019.

On 21 March 2019, the Dexia Crédit Local Board of Directors appointed Tamar Joulia-Paris as a director of Dexia Crédit Local, replacing Martine De Rouck.

On 8 October 2019, the Dexia Crédit Local Board of Directors appointed Bart Bronselaer as Chief Executive Officer and Chairman of the Management Board ad interim of Dexia Crédit Local as from 15 November 2019, replacing Wouter Devriendt, who had expressed his wish to leave the Dexia Group in order to pursue his international career.

As the governance of Dexia and Dexia Crédit Local is integrated, Bart Bronselaer is also Chief Executive Officer ad interim of Dexia, Patrick Renouvin is also Chief Operating Officer of Dexia. Claire Cheremetinski and Tamar Joulia-Paris are also non-executive directors of Dexia.

On the proposal of the Dexia Appointments Committee, the Dexia Crédit Local Board of Directors meeting held on 16 March 2020 decided to retain the candidacy of Pierre Crevits and to start the Fit & Proper procedure to obtain the approval of the European Central Bank with a view to proposing to the Shareholders' Meeting to be held on 19 May 2020 the appointment of Pierre Crevits as Chief Executive Officer and Chairman of the Management Board of Dexia Crédit Local.

Approval by the European Commission of the prolongation of Dexia Crédit Local's senior debt State guarantee

On 27 September 2019, the European Commission confirmed[1] its approval of the prolongation by Belgium and France of Dexia Crédit Local's senior debt State guarantee granted to Dexia Crédit Local beyond 31 December 2021.

Validated by the European Commission in December 2012, the Dexia Group's orderly resolution process is based in particular on a funding guarantee granted jointly and not severally by the Belgian, French and Luxembourg governments. The maximum principal amount of this guarantee is EUR 85 billion. It covers funding raised from qualified, institutional or professional investors covered by the guarantee agreement before 31 December 2021 and having a maximum maturity date of ten years. As at 31 December 2019, Dexia Crédit Local's total outstanding guaranteed debt amounted to EUR 60.5 billion[2].

In order to anticipate the expiry of the current guarantee, the Belgian and French States gave notice, to the European Commission, of a plan to extend this guarantee for a further period of 10 years from 1 January 2022.

The extended funding guarantee will retain most of its current features and will therefore remain joint, unconditional, irrevocable and on first demand. However, the following changes have been made to the scheme:

- The new guarantee ceiling will be EUR 75 billion which, given the sharp reduction in the funding requirements, represents a comfortable level for achieving the resolution of the Dexia Group;
- The Luxembourg State will no longer participate in the guarantee scheme. Its 3% share will be distributed between the Belgian and French States in proportion to their current shares of 51.41% and 45.59% respectively, resulting in a proportion of 53% for Belgium and 47% for France;
- The remuneration for the guarantee will remain at 5 basis points per annum on the guaranteed amounts outstanding, payable monthly. This fee may be increased by a conditional deferred fee, which will be payable on the Group's liquidation and provided that Dexia Crédit Local no longer holds a banking licence. The tariff structure for this fee will be progressive from 2022, and reach an annual rate of 135 basis points on outstanding in 2027.

The conditional deferred fee is subordinate to the rights of preferential unsecured or subordinated creditors at a "Tier 2" or higher level of Dexia Crédit Local. However, it takes precedence over hybrid "Tier 1" securities of Dexia Crédit Local (ISIN FR0010251421) and Dexia (ISIN XS0273230572).

(1) https://ec.europa.eu/commission/presscorner/detail/en/mex_19_5875
(2) Details of Dexia's outstanding debt are available on the National Bank of Belgium web site (http://www.nbb.be/doc/dq/warandia/index.htm)

The deferred part of the fee which Dexia Crédit Local will have to pay to the Belgian and French States on its liquidation, as remuneration for the guarantee, will be at a level such that it should absorb the net liquidation proceeds of Dexia Crédit Local. Consequently, neither the holders of hybrid subordinated "Tier 1" debt of Dexia Crédit Local and Dexia nor the States, as holders of profit shares issued by Dexia, nor the shareholders of Dexia (States and other shareholders) should receive any proceeds following the liquidation of Dexia and Dexia Crédit Local, such proceeds being paid to the Belgian and French States as conditional deferred commission.

This guarantee remuneration structure makes it possible fully to implement the principle of burden sharing which underpins Dexia's orderly resolution and requires that any improvement in Dexia's financial situation only benefits the State shareholders and guarantors.

Belgium and France will have to ratify Dexia Crédit Local's senior debt State guarantee in accordance with the procedures applicable in each State.

Dexia Crédit Local continues to refinance itself under the guarantee scheme currently in force until 31 December 2021 and the debt already issued or to be issued before that date is covered until its contractual maturity by the guarantee agreement of 24 January 2013.

Strengthening of the prudential requirements applicable to Dexia Crédit Local with regard to solvency as from 1 January 2020

The European Central Bank (ECB) informed the Dexia Group of the qualitative and quantitative prudential requirements with regard to solvency applicable to Dexia Crédit Local, on a consolidated basis, and its Italian subsidiary Dexia Crediop as from 1 January 2020, 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].

More detailed information is provided in the chapter entitled "Information on capital and liquidity" in this annual report.

Post-balance-sheet events

Dexia Crédit Local is closely monitoring the evolution of the situation linked to the spread of the Covid-19 coronavirus throughout the world and particularly in Europe. The Management Board has rapidly activated the operational and strategic crisis units to protect its teams and has implemented all the necessary measures to enable its teams to work remotely. The crisis unit ensures the operational continuity of the company and manages all impacts related to this situation.

As at the date of approval of Dexia Crédit Local's financial statements by the Board of Directors, the severity of the pandemic has had a major impact on the financial markets, resulting in a very high volatility of all financial indices, a steepening of interest rate curves and a decline in the value of shares and bonds affecting all categories of borrowers. Containment measures make the execution of market transactions extremely complex. Finally, given the high degree of uncertainty about the development of the crisis, the maturities sought by money market investors have become much shorter.

The rapid progress made towards meeting the acceleration targets of the deleveraging plan, set in 2019 by Dexia's governance bodies, has made it possible significantly to reduce the size of Dexia Crédit Local's commercial portfolios as well as its funding requirements. As at 31 December 2019, Dexia Crédit Local had a liquidity buffer of EUR 19.4 billion, enabling it to cope with market tensions, and its LCR ratio amounted to 236%. Prior to the deepening of the crisis, Dexia Crédit Local had executed 33% of its long-term guaranteed funding programme, and since then it has financed itself mainly through secured funding (repo).

The current crisis makes the implementation of the asset disposal plan more complex and exposes Dexia Crédit Local to fluctuations in the value of assets not sold and reclassified at fair value. On the other hand, Dexia Crédit Local could experience a deterioration in the credit quality of its asset portfolio which cannot be assessed at the date of approval of the Dexia Crédit Local's financial statements by the Board of Directors. At the end of December 2019, Dexia Crédit Local's Total Capital ratio was 23.7%, a level above the minimum of 13.85% imposed for the year 2019 by the European Central Bank (ECB) within the framework of the Supervisory Review and Evaluation Process (SREP).

As part of the fight against the crisis triggered by the Covid-19 epidemic, the ECB, the Banque de France, the National Bank of Belgium and the European Banking Authority (EBA) announced measures aimed at easing prudential requirements and operating costs for credit institutions. Thus, the ECB is exceptionally and temporarily allowing banks to operate with ratio levels which may be below the LCR liquidity ratio, capital conservation buffer requirements (requirement of 2.5% as at 1 January 2020) and requirements under the Pillar 2 guidance (P2G). The *Haut Conseil pour la stabilité financière* has also decided to relax the countercyclical buffer in full until further notice.

Including these easing measures, the capital requirement applicable to Dexia Crédit Local rises to 11.25% on a consolidated basis.

The asset repurchase programmes (PEPP for the ECB) announced in a coordinated manner by the central banks and the launch of long-term refinancing operations (LTROs) is also intended to support market liquidity.

Finally, the ECB has announced that banks will be given additional time in which to take the corrective actions resulting from previous inspections and may grant additional time in the delivery of certain regulatory postponements to facilitate business continuity. The EBA also decided to postpone the 2020 stress test exercise for all institutions until 2021. Dexia Crédit Local will benefit from these measures in the same way as other credit institutions.

At the date of drawing up its financial statements, Dexia Crédit Local has taken these different elements into account and concluded that they do not call into question the assessment of the going concern (cf. note on going concern).

(1) Cf. Press Release issued by Dexia on 24 January 2020, available at www.dexia.com

Financial results

Notes regarding the Dexia Group's annual consolidated financial statements 2019

Going concern

The consolidated financial statements of Dexia Crédit Local as at 31 December 2019 were prepared in line with the accounting rules applicable to a going concern in accordance with IAS 1 § 25 and 26. 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 and established on the basis of the elements available on the date the financial statements were approved by the Board of Directors. In particular:

• 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 2019 and validated by the Board of Directors of Dexia on 19 December 2019 integrates the regulatory developments known to that date, including the final version of the CRD IV Directive. It also takes account of the non-renewal, as from 1 January 2019, of the specific approach granted by the European Central Bank for the supervision of the Dexia Group. This update does not integrate the results of the on-site inspection (OSI) by the European Central Bank on operational risk and outsourced activities, on which the definitive report has not yet been received by Dexia.

• The ongoing resolution assumes that Dexia Crédit Local retains a sound funding capacity, relying in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on its capacity to raise secured funding.

• The latest update of the business plan takes account of a revision of the funding plan relying on the last observable market conditions. Dexia Crédit Local has continuously reduced its funding requirement and extended the maturity of the funding raised, with a view to the prudent management of its liquidity. This enables 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. As at the end of 2019, Dexia Crédit Local had a liquidity buffer amounting to EUR 19.4 billion, half of which consisted of cash.

• The acceleration of the deleveraging decided during the summer 2019, combined with the sale of DKD, led to a EUR 32 billion decrease of Dexia Crédit Local's funding requirement over the year, partially driven by a rapid reduction of the funding requirement in US dollar. The achievement of the funding programme in 2019, in line with the budget, as well as the successful launch of its first 2020 7-year benchmark issue for EUR 1.5 billion is a reflection of the good funding capacity of Dexia Crédit Local which resilience vis-à-vis the risk of liquidity, in normal market circumstances, strongly improved in 2019. Finally, the confirmation by the European Commission of the prolongation of the liquidity guarantee provided by the French and Belgian States beyond 31 December 2021 for up to EUR 75 billion provides great comfort for the continuation of the Dexia Group's orderly resolution.

• The business plan assumes the maintenance of the banking licences of Dexia Crédit Local and the maintenance of the Dexia Crédit Local rating at the level of Investment Grade.

• When assessing the appropriateness of the going concern, the Dexia management has challenged the consistency of the strategic choices made by its shareholders with long-term financial forecasts. The management also factored in the constraints and uncertainties related to its operating model as well as the risk attached to its operational continuity, given its specific nature of a bank in run-off, and took the appropriate actions to mitigate such risks.

• Uncertainties remaining with regard to implementation of the business plan over the duration of the Dexia Group's resolution led to regular reviews and adjustments to the original plan and, over time, may involve a significant change of the Group's resolution trajectory as initially anticipated. In particular, this plan is likely to be impacted by new developments in accounting and prudential rules.

• Dexia et Dexia Crédit Local are also very 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 and Dexia Crédit Local's liquidity and solvency positions. It could also impact the valuation of financial assets, liabilities and OTC derivatives, fluctuations of which are booked in the income statement and are liable to result in a fluctuation of the level of Dexia Crédit Local's regulatory capital. In particular, considering decisions taken by the Board of Directors in relation to the implementation of two asset sales programmes, for a total amount of approximately EUR 18 billion, Dexia Crédit Local is exposed to the evolution of macroeconomic conditions and market parameters on these assets until their effective disposal.

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

• At this stage, these uncertainties 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 the "going concern" principles pursuant to IAS 1.

• Moreover, Dexia Crédit Local is closely monitoring the evolution of the situation linked to the spread of the Covid-19 coronavirus throughout the world and particularly in Europe.

On the date of approval of Dexia Crédit Local's financial statements by the Board of Directors, the severity of the pandemic has had major consequences on the financial markets. It will have a severe impact on economic growth and could lead to a deterioration in the quality of the assets held by Dexia Crédit Local that cannot be assessed at this stage.

• Dexia Crédit Local has rapidly implemented the necessary measures to ensure operational continuity within the context of a confinement of staff members and subcontractors. Its liquidity reserves enable it to cope with the tensions existing on the money market on the date of approval of the financial statements by the Board of Directors and the measures announced by the supervisors to relax solvency ratios increase its excess capital buffer.

• As a consequence, after taking account of all these elements developed in part in the chapter "Highlights" of this annual report, Dexia Crédit Local management confirms that, at the end of 2019, the financial statements can be prepared in accordance with the rules applicable to a going concern in accordance with IAS 1 § 25 and 26. The subsequent analysis of the effects of the Covid-19 crisis carried out by Dexia Crédit Local management has not led to call into question the appropriate nature of the going concern agreement.

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.

Dexia Crédit Local's consolidated financial statements

Analysis of the consolidated income statement

CONSOLIDATED INCOME STATEMENT – ANC FORMAT

(in EUR million)	2018	2019
Net banking income	**(68)**	**(631)**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	(365)	(358)
Gross operating income	**(433)**	**(989)**
Cost of credit risk	128	265
Net gains or losses on other assets	9	0
Pre-tax income	**(296)**	**(724)**
Income tax	(8)	17
Result from discontinued operations, net of tax	22	(117)
Net income	**(282)**	**(824)**
Minority interests	(26)	(40)
Net income Group share	**(256)**	**(784)**

Over the year 2019, Dexia Crédit Local booked net income Group share of EUR -784 million.

Over that period, net banking income was EUR -631 million, consisting of:

• the net interest margin, which includes income from asset portfolios and the funding cost, and which amounted to EUR +19 million. It was down in particular as a result of the persisting historically low interest rates;

• net commissions of EUR -7 million;

• net gains or losses on financial instruments at fair value by result, which amounted to EUR -15 million. The variation of market parameters over the year also had a severely negative impact on hedge inefficiencies (EUR -219 million). In particular, the valuation of derivatives was marked by the unfavourable evolution of the BOR margin against OIS on the pound sterling. This negative impact was offset by a favourable evolution of the Funding Value Adjustment (FVA), the Credit Value Adjustment (CVA) and the Debt Valuation Adjustment (DVA), in a total amount of EUR +138 million;

• net gains or losses on financial instruments at fair value by equity, in an amount of EUR -119 million, as well as net gains or losses on financial instruments at amortised cost in an amount of EUR -208 million associated with asset disposal programmes and, to a lesser extent, liability repurchases;

• an impact of EUR -314 million associated with the reclassification of US assets from the "amortised cost" category to the "fair value by result" category, within the context of the change of business model;

• the net income from other activities, at EUR +13 million.

Costs amounted to EUR -358 million, against EUR -365 million as at 31 December 2018. Taxes and regulatory contributions, in an amount of EUR -62 million were down, in line with the reduction of the Group's size and the improvement of its risk profile, whilst general operating charges were impacted by transformation costs, particularly associated with the renewal of IT infrastructure.

The cost of credit risk was EUR +265 million and is explained mainly by reversals of provisions, in an amount of EUR +95 million, consecutive to the disposal of impaired exposures, in particular the reversal on the exposure to the Chicago Board of Education, as well as a change in the estimate of provisioning, in an amount of EUR +150 million. In fact, following recommendations made by the European Central Bank within the context of the on-site inspection on credit risk, Dexia Crédit Local applied the methodology recommended by the European Banking Authority (EBA) for the identification of the Significant Increase in Credit Risk (SICR), which is reflected in particular by a revaluation of the provision on Portugal from stage 2 to stage 1. This revaluation is corroborated by the review of the internal rating of Portugal, made by Dexia Crédit Local at the beginning of 2020.

Net pre-tax income was EUR -724 million.
The amount of tax is positive, at EUR +17 million, with the benefit of a favourable effect of EUR +22 million in the fourth quarter 2019, linked to the positive resolution of tax litigation.
The result from discontinued operations, net of tax, amounted to EUR -117 million and corresponds to the impact of the sale of Dexia Kommunalbank Deutschland.
The income attributable to minority interests was EUR -40 million, leading to a net income Group share of EUR -784 million.

Evolution of the consolidated balance sheet

As at 31 December 2019, the Dexia Crédit Local's consolidated balance sheet total amounted to EUR 119.4 billion, down sharply by EUR -39 billion compared to 31 December 2018, mainly as a result of the dynamic policy of reducing asset portfolios.
The asset portfolio now stands at EUR 49.6 billion, composed in equal parts of bonds and loans, mainly denominated in EUR. It is mainly focused on the Italian sovereign and the European public sector (Italy, France, Spain, Portugal), with a residual concentration of UK and Japanese assets.

On the assets side and at a constant exchange rate, the decrease is almost entirely explained by the deconsolidation of Dexia Kommunalbank Deutschland (DKD) (EUR -24.4 billion) and the reduction of the asset portfolios (EUR -16 billion). Over the year, the impact of the macroeconomic environment (fair value items and collateral cash posted) was limited (EUR +1.2 billion).
On the liabilities side, at a constant exchange rate, in addition to the impact of the DKD deconsolidation, the evolution of the balance sheet is principally reflected by the reduction of the stock of market funding (EUR -17 billion), slightly offset by an increase of the fair value of liabilities and derivatives and of the amount of collateral cash received (EUR +2.5 billion).
The impact of foreign exchange variations on the balance-sheet evolution is negligible.

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 fiscal purposes.

1. ESTABLISHMENT AND THE NATURE OF ITS ACTIVITY

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	Financing by local investments by par finance leasing
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

2. DATA BY COUNTRY

Country of establishment	Net banking income (in EUR million)	Pre-tax income (in EUR million)	Current tax (in EUR million)	Workforce
Germany	(4)	(9)	0	0
Spain	0	4	0	0
United States	(384)	(373)	(3)	42
France	(129)	(221)	(33)	407
Cayman Islands	0	(1)	0	0
Ireland	(42)	(128)	0	19
Italy	(96)	(134)	0	77
Portugal	0	0	0	0
United Kingdom	21	21	0	4

Statutory financial statements of Dexia Crédit Local

Evolution of the income statement

The **net income** of Dexia Crédit Local for the 2019 financial year amounted to EUR +393 million against EUR +647 million in 2018. It is marked principally by the continuing transformation of the funding structure, disposals and repatriations of assets from subsidiaries and branches.

Net banking income was positive at EUR +778 million in 2019, against EUR +466 million at the end of 2017. It included the impacts associated with the results of asset disposals and the evolution of the valuations of investment portfolios.

It consisted in particular of:

- the net interest margin, which includes income from asset portfolios and the funding cost. It amounted to EUR +340 million,
- the losses on the held-for-trading portfolios and financial instruments of EUR -72 million essentially including interest charges on derivatives and the negative impacts of the Funding Value Adjustment (FVA) and the Credit Value Adjustment (CVA),
- the gains on investment portfolios of EUR +429 million including considerable reversals of provisions.
- the losses associated with the disposal of held-to-maturity securities of EUR -67 million.

Operating expenses were stable, at EUR -308 million over the year 2019. They include EUR -163 million of administrative costs, up compared with 2018, on the items technical infrastructure, outsourcing and consultancy.

The **cost of credit risk** had a positive impact of EUR +195 million at the end of 2019. It is explained mainly by:

- a provision reversal of EUR +90 million on the valuation of the Dexia Crediop holding; moreover, this holding is entirely depreciated.
- a provision reversal of EUR +46 million relating to the activity of desensitisation of loans to the French local public sector.
- specific provision reversals, consecutive to the disposal of provisioned exposures, in particular in New York, at EUR +54 million; the Chicago Board of Education file contributed EUR +46 million.

The item **gains/losses on fixed assets** amounted to EUR -280 million. It consisted mainly of the reversal of an allocation to provisions for depreciation of the Dexia Crediop holding at EUR -120 million, corresponding to the amount of the capital increase fully subscribed by Dexia Crédit Local, and an income of EUR -159 million associated with the disposal of Dexia Kommunalbank Deutschland (this income is offset with a dividend of EUR +160 million booked as net banking income).

INCOME STATEMENT

(in EUR million)	2018	2019
Net banking income	**466**	**778**
Operating expenses	(321)	(325)
Gross operating income	**145**	**453**
Cost of credit risk	(35)	195
Operating income	**110**	**648**
Gains or losses on intangible assets	528	(280)
Current pre-tax income	**638**	**368**
Exceptional income	11	2
Charges or proceeds of income tax	(2)	23
Income for the financial year	**647**	**393**
Basic earnings per share (in euros)	*2.32*	*1.41*
Diluted earnings per share (in euros)	*2.32*	*1.41*

Balance sheet evolution

The balance sheet total as at 31 December 2019 was EUR 89.4 billion against 108.9 billion in 2018, or down EUR 19.5 billion.

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 +0.44% in 2019.

A - Assets

Customer loans

As at 31 December 2019, total customer loans were down by 17.2% at EUR 20 billion (against EUR 24.2 billion at the end of December 2018) 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 21 billion at the end of 2019, against EUR 32 billion at the end of 2018. The evolution of the different portfolios is presented in the notes to the financial statements. They consist essentially of French and foreign bonds, negotiable debt securities and government securities. The fall of the securities portfolio is explained by the significant disposals made in 2019.

Equity investments, shares in affiliated enterprises

Equity investments amounted to EUR 0.2 billion, against EUR 0.7 billion at the end of 2018, following the reversal of the provision for depreciation of the holding in Dexia Kommunalbank Deutschland.

There was no acquisition in 2019.

Other assets

The item “Other assets” was EUR 22.2 billion, against EUR 21.8 billion at the end of 2018.

This item essentially consisted of cash collateral.

B- Liabilities

Banks and financial institutions

The Dexia Crédit Local debt with credit institutions was EUR 11 billion as at 31 December 2019 against EUR 23 billion at the end of 2018.

Debt securities

The extent of debt securities in total liabilities is a characteristic element of the Dexia Crédit Local balance sheet. As at 31 December 2019, this amount was EUR 63 billion, against EUR 68 billion at the end of 2018, and represented the amount of bond debts issued by Dexia Crédit Local and for the most part benefiting from the guarantee of the French, Belgian and Luxembourg States.

Delays in paying suppliers and customers

Applying Articles L. 441-6-1 and D. 441-4 of the French Commercial Code, Dexia Crédit Local must each year publish a breakdown of the balance of its debts to suppliers by due date. The supplier debts of Dexia Crédit Local represent an insignificant amount in the company’s balance sheet total. Dexia Crédit Local’s practice is to settle its invoices at 45 days unless a contractual agreement is signed with the supplier providing for a settlement deadline of 30 days or 60 days as the case may be.

Supplier debts were EUR +3.6 million as at 31 December 2019.

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.

DCL - Detail Supplier Invoices due as at 31/12/2019

Total Invoices	Balance TTC EUR	1 to 30 days	31 to 60 days	61 to 90 days	91 days and more	Total
60	2,041,857	9,128	41,774	0	1,990,955	2,041,857

DCL - Détail Customer Invoices due as at 31/12/2019

Total Invoices	Balance TTC EUR	1 to 30 days	31 to 60 days	61 to 90 days	91 days and more	Total
18	887,947	0	17,887	684,350	185,710	887,947

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 2019:

- 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

FIVE –YEAR FINANCIAL SUMMARY

in EUR	2015	2016	2017	2018	2019
FINANCIAL SITUATION					
Share capital (in EUR)	223,657,776	279,213,332(1)	279,213,332	279,213,332	279,213,332
Number of shares	223,657,776	279,213,332	279,213,332	279,213,332	279,213,332
COMPREHENSIVE INCOME (IN EUR)					
Revenues	1,432,949,370	2,861,425,520	1,862,276,007	2,584,397,238	2,158,770,445
Earnings before income tax, depreciation, amortisation and net impairment charges	209,875,341	160,629,999	245,593,268	(859,702,347)	(648,346,161)
Corporate income tax	886,101	(22,784,693)	(6,755,199)	(2,417,794)	23,340,552
Earnings after income tax, depreciation, amortisation and net impairment charges	60,179,506	(216,780,648)	1,003,770,302	646,943,849	393,202,645
Dividends	Nil	Nil	Nil	Nil	Nil
DATA PER SHARE (IN EUR)					
Revenues	6.41	10.25	6.67	9.26	7.73
Earnings after income tax, and before depreciation, amortisation and net impairment charges	0.94	0.49	0.86	(3.09)	(2.24)
Corporate income tax	0.00	(0.08)	(0.02)	(0.01)	0.08
Earnings after income tax, depreciation, amortisation and net impairment charges	0.27	(0.78)	3.59	2.32	1.41
Dividends	0.00	0.00	0.00	0.00	0.00
EMPLOYEE DATA					
Employees as at 31 December	793	811	683(2)	554(2)	461
Managerial staff	640	638	549	436	393
Administrative staff	153	173	134	118	68
Gross payroll (in EUR)	79,595,293	80,733,095	76,366,807	71,563,004	58,380,164
Payroll taxes and employee benefits (social security, employee benefit programmes etc.) (in EUR)	25,302,829	24,401,805	23,533,784	19,730,884	18,070,799

(1) The Extraordinary Shareholders; Meeting of Dexia Crédit Local held on 28 June 2016 decided to increase the share capital by an amount of EUR 250 million by the issue of new shares maintaining the preferential subscription right of shareholders.
The share capital of Dexia Crédit Local thus rose from EUR 223,657,776 to EUR 279,213,332 by the issue of 55,555,556 new shares of EUR 1 nominal value issued at a unit price of EUR 4.50, or with an issue premium of EUR 3.50 per share.
(2) In November 2017, the IT staff members were transferred to Cognizant.
On 1 May 2018, market and credit back office staff members were transferred to Cognizant.

Risk Management

Introduction

In 2019, the Risk activity line continued actively to manage the risk carried by Dexia Crédit Local, in line with the Risk Appetite Framework (RAF). This framework will be enhanced to include new risk indicators for solvency, liquidity, profitability, operational and business continuity risk indicators, related in particular to the outsourcing of IT services and back office. 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.

During the year, Dexia Crédit Local significantly reduced its commercial portfolios, through the acceleration of the asset disposal programme and the implementation of an additional programme. Within the context of the transformation of Dexia Crédit Local New York and in order to reduce the operational risk linked to the transfer of the entity's balance sheet to Dexia Crédit Local's head office, the Group sold a large part of the assets held by its US branch. The assets sold include the entire portfolio of ABS on student loans and a large part of the public sector portfolio. The entirety of the Group's exposure to the Chicago Board of Education was repurchased or sold. The reversal of provisions following these disposals, combined with a change in the estimate of the provisioning, notably on the Portuguese sovereign, largely explains the positive cost of risk, which amounts to EUR 265 million for the year 2019.

Outsourcing contracts, in particular the agreements between Dexia and Cognizant concerning IT and back-office services as well as IT infrastructure, are closely monitored, in particular by the indicators of the Risk Appetite Framework.

As in 2018, 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 2019. The aim of this exercise was to provide detailed and harmonised information on the balance sheets and portfolios of the main European banks.

Finally, Dexia Crédit Local is closely monitoring the evolution of the situation linked to the spread of the Covid-19 coronavirus throughout the world and particularly in Europe. The Management Board has activated the operational crisis unit in order to protect its teams, ensure the operational continuity of the company and manage all the impacts linked to this situation.

Governance

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

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

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

The Risk Committee, created within the Dexia Crédit Local 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.

Thus the Management Board delegates its decision-taking powers in relation to:

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

More detailed information on the Risk Committee, the Management Board, the Transaction Committee and the ALCO Committee is provided in the chapter entitled “Governance” in Dexia’s annual report.

Organisation of the Risk activity line

The Risk Management Executive Committee

As at 31 December 2019, the Risk Management Executive Committee is chaired by the Chief Risk Officer and each department is represented within it:
• the Credit Analysis Centres department,
• the Market Risk department,
• the Permanent Control, Operational Risk and IT Systems Security department,
• the Credit Models and Default Monitoring department,
• the Transversal Risk Management department,
• the Risk Metrics & Reporting department,
• the Internal Validation 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 Risk Management Executive Committee 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 risk 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 Credit Local's level of risk tolerance as approved by the Board of Directors and falls within the implementation of Dexia strategy. It defines the 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 quarterly 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 Group'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 Group's credit risk policy, which encompasses supervision of the processes for rating counterparties, analysing credit files and monitoring exposures within the Group. It also determines the specific provisions presented quarterly when the accounts are approved by the Board of Directors.

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

Market risk

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

Market risk policy and management are in the hands of the Management Board. To facilitate the Group's operational management, a system of delegated authority has been put in place:
• The **Market Risk Committee** is responsible for market risk governance and standards. It defines the risk limits that form the general framework for the Group's risk policy, analyses risk results and positions and approves risk measurement methods. It meets on a monthly basis.
• The **Valuation and Collateral Monitoring Committee** meets each month to analyse indicators relating to collateral management, to decide on action plans for significant valuation differences and to monitor the valuation of structured products.

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

Transformation risk

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

Within the Risk activity line, a dedicated ALM 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. Furthermore, this ALM Risk team 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 Group activities and delegates the operational management of risk monitoring to the Operational Risk Committee. This committee examines the main risks identified and decides on the corrective actions to be taken. It validates measurement, prevention or improvement proposals in relation to the various elements of the mechanism. The Operational Risk Committee relies on a committee dedicated to activity continuity and IT systems security, which examines and decides on actions to be taken to guarantee activity continuity and the implementation of a policy for IT systems security.
Operational risk, activity continuity and IT systems security management is coordinated by a central team within the Risk activity line supported by a network of correspondents within all subsidiaries and branches, as well as within the Group's various departments. Within each activity domain, an operational risk correspondent coordinates data collection and assesses risks, as well as proposing and monitoring remediation action plans. Supported by the operational risk management function, it ensures good operational continuity management.

Regulatory risk

To ensure a proactive response to the various regulatory requirements, the Regulatory Risk Committee is responsible for defining Dexia Crédit Local's general approach to prudential problems and ensuring exhaustive cover for the various regulatory topics. It informs the different activity lines 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

The "Stress Tests and Pillar 2" Committee, under the joint responsibility of the Finance and Risk activity lines, steers the internal ICAAP and ILAAP processes. This committee approves all matters concerning governance, risk measures and results before they are submitted to the Management Board, the Risk Committee and the Board of Directors. The results are subject to independent analysis by the Internal Validation department. In continuity with previous years, analyses of the risks of deviations from the strategic plan were carried out for the ICAAP/ILAAP dossier (subject of exchanges with the European Central Bank within the framework of the SREP) and ad hoc analyses to support strategic choices.

Risk monitoring

Credit risk

Exposure to credit risk

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 to the consolidated financial statements.
As at 31 December 2019, Dexia Crédit Local's exposure to credit risk was EUR 87 billion compared to EUR 123.2 billion at the end of December 2018, i.e. down 29%, linked to natural portfolio amortisation, asset disposals and early redemptions.
Exposure was for EUR 43 billion in loans and EUR 39 billion in bonds. It was for the most part concentrated in the European Union (82%) and the United States (10%).

EXPOSURE BY GEOGRAPHIC REGION

(in EUR million)	31/12/2018 Total	o/w discontinued activities (DKD)	o/w continuing activities	31/12/2019 Total
United Kingdom	21,114	53	21,061	21,404
Italy	21,811	837	20,974	19,414
France	22,270	54	22,216	17,729
United States	14,994	152	14,842	8,866
Spain	7,321	28	7,294	5,373
Portugal	4,420	235	4,185	4,050
Japan	5,459	0	5,459	3,794
Other European countries	1,882	0	1,882	1,182
Canada	16,714	14,805	1,909	1,058
Germany	2,140	1,444	696	986
Central and Eastern Europe	1,913	1,014	899	905
Central and South America	345	0	345	164
Switzerland	353	0	353	146
South East Asia	202	0	202	121
Scandinavia	218	20	198	81
Others (1)	2,075	267	1,808	1,704
TOTAL	**123,232**	**18,908**	**104,324**	**86,976**

(1) Includes suparanationals and Australia.

As at 31 December 2019, the majority of exposures remained concentrated on the local public sector and sovereigns (72%), 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 of deposits with the Bank of France by virtue of the liquidity reserve.

EXPOSURE BY CATEGORY OF COUNTERPARTY

(in EUR million)	31/12/2018 Total	o/w discontinued activities (DKD)	o/w continuing activities	31/12/2019 Total
Local public sector	65,801	16,663	49,138	37,795
Sovereigns	26,994	1,666	25,329	25,157
Project finance	10,153	14	10,139	9,194
Financial institutions	10,428	557	9,871	6,859
Corporates	5,719	0	5,718	5,273
ABS/MBS	2,666	9	2,657	1,366
Monolines	1,471	0	1,471	1,333
Individuals, SME, self-employed	0	0	0	0
SELF-EMPLOYED	**123,232**	**18,908**	**104,324**	**86,976**

The quality of the Dexia Crédit Local credit portfolio remained high, with 91% of exposures rated investment grade as at 31 December 2019.

EXPOSURE BY RATING (INTERNAL RATING SYSTEM)

	31/12/2018 Total	o/w discontinued activities (DKD)	o/w continuing activities	31/12/2019 Total
AAA	19.17%	23.02%	18.47%	16.36%
AA	16.97%	66.30%	8.03%	7.77%
A	25.22%	3.39%	29.17%	30.22%
BBB	29.39%	6.62%	33.52%	37.11%
Non Investment Grade	7.86%	0.66%	9.17%	7.55%
D	1.13%	0.00%	1.34%	0.78%
No rating	0.26%	0.02%	0.31%	0.21%
TOTAL	**100%**	**100%**	**100%**	**100%**

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 2019 are presented in the following paragraphs.

GROUP SECTOR EXPOSURE TO CERTAIN COUNTRIES

(in EUR million)	Total	o/w local public sector	o/w project finance and corporates	o/w financial institutions	o/w ABS/MBS	o/ sovereign exposures	o/w monolines
United Kingdom	21,404	10,315	7,458	1,362	1,360	64	846
Italy	19,414	8,612	277	114	0	10,411	0
France	17,729	7,290	2,541	1,489	0	6,408	0
United States	8,866	2,740	838	1,125	3	3,672	488
Spain	5,373	3,580	1,169	246	1	377	0
Portugal	4,050	1,006	59	11	0	2,974	0
Japan	3,794	3,238	0	535	0	21	0
Germany	1,058	0	109	945	0	4	0

Dexia Crédit Local commitments on sovereigns

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

In 2019, Dexia Crédit Local took advantage of favourable market conditions to dispose of some of its sovereign exposure, particularly on Italy. Exposure on the Italian sovereign fell by EUR 1.8 billion over the year 2019 and was EUR 10.4 billion as at 31 December 2019.

Sovereign exposure on France was EUR 6.4 billion as at 31 December 2019, against EUR 8.5 billion as at 31 December 2018. The fall recorded over the year reflects the reduction of deposits with the Bank of France by virtue of the Group liquidity reserve.

The two main events in Europe were the arrival in power in Italy of a pro-European coalition and persisting uncertainties surrounding the United Kingdom’s exit from the European Union.

In Italy, as a result of a more fiscally constructive coalition, tensions on the capital markets have eased significantly: Italian interest rates and credit spreads have fallen back to the levels seen before the Northern League/Five Star Movement coalition agreement in 2018.

Following the election of Boris Johnson's Conservative Party in early elections at the end of the year, the UK's exit from the European Union in 2020 is certain. However, uncertainties remain over the terms of the post-exit UK/EU relationship.

Dexia Crédit Local’s exposure to the United Kingdom sovereign is marginal (EUR 64 million). Overall exposure on the United Kingdom was nonetheless EUR 21 billion as at 31 December 2019, 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.

Dexia Crédit Local commitment to the local public sector

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

France

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

The year 2019 was marked by significant sales of loans within the framework of the deleveraging programme, notably loans to French local authorities (EUR 0.6 billion).

More detailed information on asset sales are provided in the chapter entitled “Highlights” in this annual report.

Spain

The Spanish State’s support to the regions and municipalities continued through the renewal of several financial support funds: EUR 26.2 billion was paid to the regions in 2019, particularly by the Autonomous Liquidity Fund for the Regions (FLA), against EUR 29.9 billion granted in 2018. In consideration for such aid, the State control over regional or local finance was increased: the 2019 budgets were drawn up on the basis of a deficit target of 0.1% of GDP. By way of comparison, the deficit was 0.2% in 2018.

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 funding. 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 to Catalonia is high (EUR 1.8 billion) but no payment incident was recorded, as for the other Spanish regions. Exposures have been significantly reduced in many regions in 2019, including Castilla y León and Galicia, as well as the region of Cantabria, which has not had an exposure since June.

United States

The majority of Dexia Crédit Local’s exposures to the local public sector in the United States relates to States (53%) and local authorities (17%). 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.

In 2019, Dexia Crédit Local took advantage of favourable market conditions to reduce its exposure to the US public sector. Several counterparties with high credit risk were sold. In particular, the Dexia Crédit Local Group bought back or sold its entire exposure to the Chicago Board of Education for which a specific provision had been booked.

More detailed information on the sales of US assets is provided in the chapter entitled “Highlights” in this annual report.

Dexia Crédit Local Group commitments to project finance and corporates

The project finance and corporate loans portfolio amounted to EUR 14 billion as at 31 December 2019, down 9% on the end of 2018. 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, such as acquisition financing, commercial transactions or corporate bonds. The portfolio is good quality: 80% project finance and 99% finance to corporates is rated investment grade.

The UK portfolio represents approximately 52% 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 2019, Dexia Crédit Local continued the voluntary reduction of its ABS portfolio. Taking advantage of favourable market conditions, the Group disposed of the entirety of its ABS portfolio on US government student loans.

Dexia Crédit Local Group commitments to financial institutions

Dexia Crédit Local commitments to financial institutions were EUR 6.9 billion as at 31 December 2019.

The evolution of the Deutsche Bank group continues to be monitored carefully. Dexia Crédit Local's exposure to this group was significantly reduced in 2019 to EUR 0.4 billion against EUR 0.9 million as at 31 December 2018, following the non-renewal of a major long-term repo and the deconsolidation of Dexia Kommunalbank Deutschland. Dexia Crédit Local's exposure to the Italian banking system was limited to EUR 114 million as at 31 December 2019.

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 2019, the amount of exposures enhanced by monolines was EUR 8.5 billion, of which 73% of exposures assets insured by monolines are rated investment grade by one or more external rating agencies. All but FGIC continue to honour their original commitments.

(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.

Impairment on counterparty risk – asset quality

ASSET QUALITY

(in EUR million)	31/12/2018[1]	31/12/2019
Impaired assets[2]	1,271	614
Specific impairments[3]	304	142
o/w stage 3	297	135
POCI	6	7
Coverage ratio[4]	23.91%	23.12%
Collective provisions	345	166
o/w stage 1	5	5
o/w stage 2	340	161

(1) Without Dexia Kommunalbank Deutschland.
(2) Outstanding calculated on the impairable IFRS 9 scope (fair value by own capital + amortised cost + off-balance-sheet).
(3) Provisions 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).
(4) Ratio between specific provisions and impaired assets.

The year 2019 was marked, on the one hand, by a change in the estimates used in the credit risk deterioration model leading to a reclassification of assets from the IFRS 9 scope between stages 1 and 2 at 31 December 2019 and, on the other hand, by the acceleration of the Group's transformation and asset disposals.

Dexia Crédit Local's stock of impaired loans and receivables amounted to EUR 614 million as at 31 December 2019, down EUR 657 million compared to the end of 2018. Specific provisions allocated amounted to EUR 142 million, down EUR 162 million compared to 31 December 2018.

This decrease of impaired assets and specific provisions was mainly explained by the sale and reimbursement of the Chicago Board of Education receivables and the sale of impaired receivables related to the motorway infrastructure sector in Greece and the rail sector in Spain.

In addition, the liquidation of two assets for which all potential recoveries have already been made results in a further EUR 42 million decrease in specific provisions.

As a result, the coverage ratio was 23.12% as at 31 December 2019.

As at 31 December 2019, collective provisions amounted to EUR 166 million, of which EUR 5 million of stage 1 provision and EUR 161 million of stage 2 provision. The sharp decrease of EUR 179 million observed over the year is mainly linked to the change in the estimate of provisioning, following the application of the Significant Increase in Credit Risk (SICR) methodology, which resulted in particular in the reclassification of the Portuguese sovereign from stage 2 to stage 1.

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

- The 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 2019, the outstanding amount of non-performing exposures represented EUR 1 billion, corresponding to 68 counterparties. The fall of EUR 1.1 billion is linked in particular to the departure from the NPE of counterparties linked to the social housing sector in France.
- 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 2019, 32 counterparties were the object of Forbearance, in an outstanding amount of EUR 0.4 billion.

Market risk

Risk measurement

The Dexia Crédit Local Group mainly assesses market risk using a combination of two measurement indicators, resulting in a limit-based risk management framework.
• Value at Risk (VaR) measures the expected potential loss for a 99% confidence interval and for a ten-day holding period. Dexia Crédit Local relies on a parametric VaR to measure the market risk inherent in the various portfolios and activities. The method of this VaR is based on a normal distribution of returns of 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 of the Group's orderly resolution, most of them covered back-to-back;
• Transactions intended to cover risks arising from disinvestments or asset sales within the framework of the orderly resolution plan.
The main risk factors of the trading portfolio are:
• the interest rate risk, in particular on the euro zone and the dollar zone;
• the cross-currency basis swap risk;
• the 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 from the trading portfolios is presented in the following table. At the end of December 2019, total consumption in VaR was EUR 1 million against EUR 1.7 million at the end of 2018.

VALUE AT RISK OF THE TRADING PORTFOLIO

(in EUR million)	2018	2019
VaR (10 days, 99%)		
Average	1.5	1.4
End of period	1.7	1.0
Maximum	1.9	2.9
Minimum	1.2	0.8

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

The portfolio classified at fair value through equity consists of securities and loans and has a sensitivity to an increase in credit spreads of EUR -2.1 million as at 31 December 2019 compared to EUR -2.8 million as at 31 December 2018 (EUR -2.7 million excluding activities held for sale – DKD). In addition, the portfolio classified at fair value through profit or loss due to its "non-SPPI" characteristic, also composed of securities and loans, shows a sensitivity to an increase in credit spreads of EUR -1.7 million as at 31 December 2019 against EUR -2.3 million as at 31 December 2018 (EUR -1.9 million excluding activities held for sale – DKD). The decrease in the sensitivity of the fair value of the portfolios results from the acceleration of sales within of the portfolio and natural amortisation.

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% parallel shift on the yield curve. The sensitivity of the net present value of the positions measured in accrued interest to a movement in interest rates is the main indicator for measuring risk and for setting limits and monitoring risks.
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 -27.7 million as at 31 December 2019, against EUR -14.1 million as at 31 December 2018. This is in line with the ALM strategy, which seeks to minimise net interest margin volatility.

(in EUR million)	2018	2019
Sensitivity	(14.1)	(27.7)
Limit	+/-80	+/-80

Measurement of exchange risk

With regard to foreign exchange, the ALCO decides on the policy for hedging 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 linked to the funding of holdings in foreign currencies;
• Elements liable to increase the volatility of the solvency ratios of the Group or its entities.
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 for managing 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 the Group's funding requirements taking into account the constraints to which it is exposed. Funding requirements are assessed, taking existing transactions into account as well as planned on and off-balance-sheet forecasts.
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 Group's liquidity situation, the Management Board regularly monitors the conditions for funding transactions on the market segments on which Dexia Crédit Local operates. It also guarantees proper execution of the funding programmes put in place. To that end, a specific and regular mode of information has been introduced:
• A daily and weekly report is provided to members of the Management Board, the State shareholders and guarantors and the supervisory authorities. This information is also used by all parties involved in managing the Dexia Crédit Local Group's liquidity position, in particular the Finance and Risk activity lines in charge of these topics, and the Funding and Markets activity line;
• A twelve-month funding plan is sent monthly to the State shareholders and guarantors, central banks and the supervisory authorities;
• A fortnightly conference call is held with the supervisory authorities and (European, French and Belgian) central banks.

Measurement of liquidity risk
The Dexia Crédit Local Group posted a consolidated LCR ratio of 236% as at 31 December 2019, against 200% as at 31 December 2018, in line with these requirements. This ratio is also respected at subsidiary level, each exceeding the required minimum of 100%.

Operational risk and IT systems security

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

Dexia Crédit Local's policy regarding operational risk management consists of regularly identifying, measuring 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 IT security, business continuity and, when necessary, the transfer of certain risks via insurance.

Measuring and managing risk

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:
• Database of operational risks: 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 54% 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.
• Risk self-assessment and control: as well as building a history of losses, Dexia Crédit Local's exposure to key risks is determined via a risk mapping exercise, which is performed on a regular basis. All Dexia Crédit Local Group entities conduct risk self-assessment exercises that take into account existing controls, thus providing an overall view of all the areas of risk within the Group's various entities and businesses. The overall mapping is presented each year to the Management Board. Actions to limit risk may be defined where applicable.
• Definition and monitoring of action plans: remedial actions are defined to avoid major incidents recurring, to correct deficient controls or to reduce important risks identified. Regular monitoring is carried out by the operational risk management function. This process allows the internal control system to be constantly improved and risks to be reduced appropriately over time.
• *Key Risk Indicators* (KRI): KRI have been developed and enable the Risk Committee to monitor the evolution of the principal risks identified in the Risk Appetite Framework.
• IT security management: the IT security policy and the associated instructions, standards and practices are aimed at ensuring that Dexia Crédit Loccal's IT assets are secure.
• Business 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.
Dexia Crédit Local applies the Basel standard approach provided in the Basel regulatory framework to calculate regulatory capital for operational risk management.

Management of operational risk during the period of resolution

In 2019, the 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, possible demotivation among staff members, or changes to treatment processes. In particular, projects to outsource certain activities may represent a source of operational risk during the implementation phase but should in the medium term guarantee the bank's operational continuity and limit the operational risks associated with systems, processes and people.
Within the framework of the agreements to outsource IT and back-office services as well as the IT infrastructure which binds Dexia Crédit Local and Cognizant, risks monitoring is performed by the Dexia Crédit Local Risk Management department for the governance of operations and risks via

joint Dexia Crédit Local / Cognizant committees. The Watchtower team, introduced within Dexia Crédit Local, is responsible for checking the provision and quality of the services provided by Cognizant, whilst the effective supervision of outsourced activities is performed the Internal Control of the Dexia Crédit Local and Cognizant entities. Finally, a quarterly report is produced to monitor the operational risks associated with strategic projects and to ensure that corrective actions are implemented to reduce the most significant risks.
Furthermore, 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 is provided in the chapter entitled "Non-financial declaration. Corporate, social and environmental responsibility" in Dexia's annual report.

Stress tests

Stress tests and scenario analyses

In line with the final versions of the European Banking Authority (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) and 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.
- Operational risk stress tests based on analysis of the frequency and severity of operational incidents, completed by scenario analyses.
- 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.

Those stress tests were approved internally and forwarded to the supervisory authorities on various occasions in 2019, in addition to the formal documentation of the ICAAP and ILAAP.
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 stressed macroeconomic and financial conditions in addition to reverse stress tests.
In accordance with regulatory requirements, the documentation for the ICAAP 2019 annual exercise was forwarded to the European Central Bank.
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 resolution plan and the ICAAP and ILAAP stress tests is also guaranteed by specific consumption and capital adequacy indicators forming part of the RAF. The stress tests are subject to internal analysis by internal validation.

Litigation

Like many financial institutions, Dexia is subject to several regulatory investigations and is named as a defendant in a number of lawsuits. Unless otherwise indicated, the status of such disputes and investigations is summarised below as at 31 December 2019 and based on information available to Dexia on that date.
On the basis of this information, other disputes and investigations in which an entity of the Dexia Group is named as a defendant 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 Dexia Crédit Local's financial position, performance or activities are reflected in the Dexia Crédit Local's consolidated financial statements. Provisions have been booked when deemed necessary.

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 local authorities as well as (ii) other non-hedging type transactions.
As indicated in earlier annual reports, In 2017, the Court of Appeal in London issued a judgment in the Prato case by means of which the Court confirmed (i) the validity of derivative contracts entered into by Dexia Crediop, (ii) that Prato had full capacity to enter into the derivative contracts and (iii) that the margin applied to the derivative contracts was necessary to cover its risks and expected costs. 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. 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.
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.
In 2019, Dexia Crediop (as well as another Italian bank) was summoned to appear by the City of Venice concerning a swap contract concluded in 2007. Dexia Crediop brought an action in London aimed at establishing the complete validity of the swap.

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 2019, 23 clients had issued summonses against DCL in connection with structured loans, of which 13 concern structured loans held by the *Société Française de Financement Local* (SFIL), parent company of the *Caisse Française de Financement Local* (CAFFIL). 8 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 of Versailles reforming the judgment of the *Tribunal de Grande Instance* of Nanterre concerning structured loans held by CAFFIL and confirmed the validity of these 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. Various decisions have been taken by the courts in these cases.
On 17 July 2019, an order of the French government amended the penalty regime applicable in the event of absence or error in the overall effective rate by abolishing the automatic conversion of this rate into the legal interest rate. This last amendment could have an impact on the ongoing litigation.
Despite the developments explained above, DCL is currently not reasonably in a position to comment on the duration or outcome of the investigations and actions still in progress, or on their possible financial consequences.

Claims for compensation resulting from the disposal of operational entities

Over recent years, Dexia has made several disposals of operating entities.

In the event of a call on a liability guarantee given by Dexia as vendor within the context of such disposals, Dexia could, in accordance with the provisions of the sale agreement, be required to indemnify a purchaser.
Dexia Crédit Local (DCL) sold its former German subsidiary Dexia Kommunalbank Deutschland in May 2019. Applications to call on the liability guarantee were notified by the purchaser to DCL following this sale. DCL contests certain elements of these claims, other than those anticipated at the time of the sale in question.
At present DCL is unable reasonably to predict the duration or outcome of such applications, or their possible financial consequences.

Information on capital and liquidity

Dexia Crédit Local's three strategic objectives are to protect its 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 2019, 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	2015	2016	2017	2018	2019
Capital (in EUR)	223,657,776	279,213,332	279,213,332	279,213,332	279,213,332
Number of shares	223,657,776	279,213,332	279,213,332	279,213,332	279,213,332
Dexia	*223,657,770 shares*	*279,213,331 shares*	*279,213,331 shares*	*279,213,331 shares*	*279,213,331 shares*
Individual investors (directors)	*6 shares*	*1 share*	*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 2019.

Prudential equity 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).

Prudential requirements applicable to Dexia Crédit Local with regard to solvency as from 1 January 2020

The European Central Bank (ECB) informed the Dexia Group of the qualitative and quantitative prudential requirements with regard to solvency applicable to Dexia and Dexia Crédit Local, on a consolidated basis, as well as its Italian subsidiary Dexia Crediop as from 1 January 2020, 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].

The Total SREP Capital Requirement (TSCR) has been set at 11.25% on a consolidated basis. This level includes a minimum own funds requirement of 8% (Pillar 1) and an additional own funds requirement of 3.25% (P2R – Pillar 2 Requirement) required entirely in Common Equity Tier 1 capital (CET 1). 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 0.50%[2], this takes the own funds requirement to 14.25%.
By way of a reminder, in 2019, the level of Total SREP Capital Requirement applicable to Dexia was set at 13.85% (including the capital conservation buffer).
Furthermore the ECB expects Dexia Crédit Local to comply with Pillar 2 capital guidance (P2G) of 1%, to be held over the level of 14.25% 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 11.75%, taking account of P2G.
The ECB further informed Dexia, within the context of convergence towards the general supervisory framework, that the Group must observe the large exposures ratio, as any other bank, as from 1 July 2020. To recall, within the framework of the specific approach granted by the ECB, until then Dexia Crédit Local benefitted from a tolerance which allowed it to deduct from its CET1 regulatory capital the economic impact which might be generated by remediation on a failure to comply with the constraint regarding large exposures on "Legacy" credit exposures.
In response to the global crisis caused by the Covid-19 coronavirus outbreak, on 12 March 2020 the ECB announced a temporary easing of capital requirements under the SREP. These measures are reflected in the relaxation of the capital conser-

(1) Cf. Dexia press release dated 24 January 2020, available at www.dexia.com.

(2) Applicable as from the second half-year 2020, take into account the countercyclical buffer relating to the French exposures

vation buffer and additional capital (P2G – Pillar 2 guidance). In conjunction with the ECB's announcement, the national authorities also proceeded to zero the countercyclical buffer. These temporary measures thus bring the SREP capital requirement for Dexia Crédit Local to 11.25% on a consolidated basis.

Prudential equity

Total Capital can be broken down as follows:
• Common Equity Tier 1 capital, including in particular:
– share capital, issuance premiums and retained capital,
– profits for the year,
– gains and losses directly recognised in equity (revaluation of financial 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[1], the amount for persistent breaches of the large exposure constraint and elements subject to prudential filters (Own Credit Risk, Debit Value Adjustment, cash flow hedge reserve, Prudent Valuation) and additional prudential provisions.
• Additional Tier 1, including Tier 1 subordinated debt (hybrid);
• Additional Tier 2 Capital, which includes the eligible portion of Tier 2 subordinated debt as well as surplus provisions on the level of expected losses, reduced by the surplus amount of thresholds provided with regard to holding subordinated debt issued by financial institutions.

In accordance with regulatory requirements and applicable transitional provisions:
• 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. The effect of increasing provisions for expected credit losses in view of the application of the IFRS 9 accounting standard was 95% in 2018 and 85% in 2019.
• 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.

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

PRUDENTIAL EQUITY (in EUR million)	**31/12/2018**	**31/12/2019**
Total Capital	**7,134**	**6,325**
Common Equity Tier 1 Capital	**7,012**	**6,269**
Core shareholders' equity, of which:	7,190	6,644
Gains and losses on financial instruments directly recognised in equity, eligible at a prudential level[1]	*(176)*	*(141)*
Translation differences – Group	*135*	*148*
Actuarial differences on defined benefit plans	*0*	*0*
Non-controlling interests (eligible in Tier 1)	*148*	*0*
Mitigation of the effect of the increase of expected credit losses following the application of IFRS 9 (95% in 2018, 85% in 2019)	168	150
Items to be deducted		
Intangible assets and goodwill	*(37)*	*(29)*
Ownership of Common Equity Tier 1 instruments in financial institutions (>10 %)	*0*	*0*
Own Credit Risk, (OCR)	*0*	*0*
Debit value adjustment	*(52)*	*(41)*
Prudent Valuation	*(227)*	*(212)*
Deduction of irrevocable payment commitments to resolution funds and other guarantee funds	*(47)*	*(49)*
Additional prudential provisions		*(80)*
Deduction for persistent breaches of large exposure constraint	*(90)*	*(121)*
Additional Tier 1 capital (hybrids)	**22**	**17**
Subordinated debt	22	17
Items to be deducted		
Ownership of additional Tier 1 instruments in financial institutions (>10 %)	0	*0*
Additional Tier 2 Capital	**100**	**39**
Subordinated debt	34	39
Of which additional Tier 1 reclassified (hybrids)	*34*	*39*
Provision excess (+)	66	0
Items to be deducted		
Ownership of Tier 2 instruments in financial institutions (>10 %)	0	*0*

(1) 2018: Revaluation reserve of financial assets at fair value through equity, cash flow hedge reserve and gains and losses directly recognised in equity for assets held for sale.

Dexia Crédit Local's Total Capital amounted to EUR 3.4 billion as at 31 December 2019, against EUR 7.1 billion as at 31 December 2018.

As at 31 December 2019, Dexia Crédit Local's Common Equity Tier 1 Capital amounted to EUR 6.3 billion, against EUR 7.0 billion as at 31 December 2018. They are burdened by the negative net income for the year (EUR -784 million).

In line with the requirements of the European Central Bank, two items are deducted from prudential capital in a total amount of EUR -170 million:
• The theoretical amount of the loss corresponding to the remediation of the persistent breach of the large exposure ratio limit, which amounts to EUR -121 million[2];
• The amount of irrevocable payment commitments (IPC) to resolution funds and other guarantee funds, which amounts to EUR -49 million.

Furthermore, following the ECB's on-site inspection on credit risk in 2018, the ECB issued a number of recommendations.

(2) Cf. Dexia press release dated 5 February 2018, available at www.dexia.com.

As a consequence, Dexia Crédit Local deducted an amount of EUR -80 million from its prudential equity as a complement to specific provisions.

As at 31 December 2019, the nominal amount of Dexia Crédit Local's hybrid Tier 1 securities amounted to EUR 56 million, of which EUR 17 million are eligible as additional Tier 1.

No hybrid debt repurchase was carried out during 2019, in line with the ban imposed by the European Commission and communicated by Dexia on 24 January 2014[1]. Dexia Crédit Local's hybrid Tier 1 capital is therefore composed of EUR 56.25 million nominal value of perpetual non-cumulative securities issued by Dexia Crédit Local: these securities (FR0010251421) are listed on the Luxembourg Stock Exchange.

As at 31 December 2019, the amount of Dexia Crédit Local's additional equity (Tier 2 Capital) amounted to EUR 39 million, including reclassified hybrid debts.

Dexia's revised orderly resolution plan includes certain restrictions concerning the payment of coupons and the exercise of calls on subordinated debt and hybrid capital from the Group's issuers. In this way, Dexia is constrained not to pay coupons on hybrid capital issued by Group issuers. So Dexia is constrained only to pay coupons on its subordinated debt instruments and hybrid capital if there is a contractual obligation to do so. In addition, Dexia cannot exercise any discretionary options for the early redemption of these securities. Finally, the Dexia Group is not authorised to repurchase hybrid capital debt issued by Dexia Funding Luxembourg (XS0273230572), and by Dexia Crédit Local (FR0010251421), as subordinated creditors must share in the financial burden resulting from the restructuring of financial institutions which have been granted State aid.

On 27 September 2019, the European Commission confirmed its approval of the prolongation by the Belgian and French States of the funding guarantee granted to Dexia Crédit Local for a new term of 10 years as from 1 January 2022. 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 Crédit Local, with the result that the holders of Dexia Crédit Local hybrid Tier 1 debt would receive no proceeds.

More detailed information on the prolongation of the State guarantee is provided in the chapter entitled "Highlights" in this annual report.

Risk-weighted assets

As at 31 December 2019, risk-weighted assets amounted to EUR 26.7 billion, of which EUR 22.9 for credit risk, EUR 3.2 billion for market risk and EUR 0.6 billion for operational risk. The sharp fall of EUR -5.6 billion of credit risk-weighted assets, associated with the acceleration of asset sales, is partially offset by an EUR +2.5 billion increase of market risk-weighted assets, due to an additional capital charge applied temporarily on the request of the European Central Bank.

RISK-WEIGHTED ASSETS

(in EUR million)	31/12/2018	31/12/2019
Credit risk	28,487	22,923
Market risk	695	3,183
Operational risk	1,000	600
Total	30,182	26,706

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

Solvency ratios

As at 31 December 2019, Dexia Crédit Local's Common Equity Tier 1 ratio was 23.5%, against 23.2% at the end of 2018. The Total Capital ratio was 23.7%, against 23.6% at the end of 2018, a level higher than the minimum of 13.85% imposed for the year 2019 by the European Central Bank within the framework of the Supervisory Review and Evaluation Process (SREP).

SOLVENCY RATIOS

	31/12/2018	31/12/2019
Common Equity Tier 1 Ratio	23.2%	23.5%
Total Capital Ratio	23.6%	23.7%

Liquidity management

As a consequence of the sale of Dexia Kommunalbank Deutschland (DKD) and the reduction of the asset portfolio, outstanding funding decreased by EUR -32.4 billion compared to 31 December 2018, to EUR 73.9 billion on 31 December 2019. At EUR 21.8 billion at the end of December 2019, the amount of net cash collateral remained almost stable, despite high volatility during the year.

The evolution of the funding mix is significant and almost entirely explained by the reduction of secured funding (EUR -24.7 billion against the end of December 2018) due to the sale of the underlying assets and the deconsolidation of DKD, the outstanding covered bonds of which amounted to EUR 13.6 billion as at 31 December 2018. There was also a decrease in unsecured funding (EUR -7.7 billion compared to the end of December 2018) due to a decrease in State-guaranteed funding (EUR -4.9 billion) as a result of the dynamics of asset portfolio reduction and, to a lesser extent, to the deconsolidation of DKD (EUR -1.9 billion). Outstanding amounts of funding guaranteed by the States amounted to EUR 60.5 billion at the end of December 2019, i.e. 82% of the total outstanding funding at that date.

Over the year, Dexia Crédit Local successfully launched various long-term public transactions in euros, US dollars and pounds sterling, raising EUR 7.1 billion at a competitive funding cost. Short-term funding activity in guaranteed format was also sustained, with an average maturity at issue of 7 months.

Dexia Crédit Local has not used central bank funding since September 2017.

As at 31 December 2019, Dexia Crédit Local has a liquidity reserve of EUR 19.4 billion, of which EUR 9.8 billion in the form of cash deposits with central banks.

On the same date, Dexia Crédit Local's Liquidity Coverage Ratio (LCR) stood at 236% against 200% as at 31 December 2018. This ratio is also respected at the level of Dexia Crediop, exceeding the required minimum of 100%. Dexia Crédit Local's Net Stable Funding Ratio (NSFR), estimated on the basis of the latest proposed amendments to the LCR, would be above the target threshold of 100%, as a result of the efforts undertaken by Dexia Crédit Local since 2013 to improve its funding profile.

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

The control function contributes to:
• the effectiveness of the risk management process: the aim of the internal control function is to guarantee that the bank's activities are conducted with a degree of control over risks compatible with the level of risks accepted by the Board of Directors;
• compliance with laws and regulations: internal control contributes to guaranteeing that Dexia fulfils 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 staff member 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 by their superiors;
• **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 activity line, 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 entities.

The main internal control participants

The participants concerned by internal control are as follows:
• **Staff members and their direct managers** 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. It 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 joint 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 March 2019 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 § 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 and the Audit departments of the entities.

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). The General Auditor guarantees the appropriate cover of risks throughout the Group as a whole. He monitors the supervisory bodies of the entities, 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 entities are under the responsibility of a General Auditor or a Head of Internal Audit. The General Auditors of Group entities 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 entities 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 body 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 to Internal Audit. Tasks performed within this framework are the subject of a report to the Audit Committee like other tasks performed by Audit.

Organisation of the 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 entity. 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 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 for each local audit department.

Relations with the supervisory authorities and the statutory auditors

Internal Audit maintains regular dialogue with the banking supervisory authorities and statutory auditors on subjects of common interest. These exchanges are aimed in particular 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 during the year 2019

In 2019, Internal Audit's assignments covered all of the Group's business lines: Assets (International Local Public Sector Assets), Funding and Markets (Short-Term Funding), Risk (Risk Appetite Framework), Finance (Asset Liability Management), General Secretariat (Compliance AML), Operations and Information Systems (EUC for Regulatory Reporting).
The head office audit departments assisted the local audit teams at Dexia New York and Dexia Crediop, in particular in the performance of assignments relating to IT security and the Monolines credit risk.

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, as the case may be, investigation actions and proposes and monitors corrective measures following such interventions.

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.

It does so for Dexia and Dexia Crédit Local, as well as for all the entities 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 during the year 2019

In accordance with the principles set out in the Inspection charter, the tasks performed by Inspection in 2019 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, expense 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.

Compliance 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 entities concerned.

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 in order to ensure compliance with regulations and 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 Directors, the Audit Committee and the Risk Committee.

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 an item on the agenda for meetings of 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 managers (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 is part of Permanent Control, Operational Risk and IT Systems Security within the Risk activity line. This positioning, closer to the operational risk management function, allows a tighter association of the review of controls and risk assessment of the Group's main processes. Other specialised units also carry out second-level controls in the areas of accounting, IT systems security, credit rating, validation of internal models and market risk. In 2019, the Accounting and Regulatory Control function of the Finance activity line, implemented 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, the entities and essential outsourced processes. First level controls to be integrated in this plan are offered by decentralised correspondents within operational units, departments, entities 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 statutory auditors and supervisory authorities.

At a consolidated level for all entities and service 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 2019 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 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, Finance 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 entities 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 minutes. 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.

Within the framework of the outsourcing contracts for IT and back-office services and the IT infrastructure that link Dexia and Cognizant, risk monitoring is carried out by Dexia's Risk department for the governance of operations and risks through the joint Dexia / Cognizant committees. The Watchtower team, set up within Dexia, is in charge of verifying the execution and quality of the services provided by Cognizant, while the effective control of outsourced activities is carried out by the Internal Control of the Dexia and Cognizant entities. Finally, a quarterly report is produced to monitor the operational risks associated with strategic projects and to ensure that corrective actions are implemented to reduce the most significant risks.

Dexia 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 department. 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 department 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 approved 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 activity line, 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 activity line.

Publication of the Dexia Crédit Local financial statements

The financial statements are then incorporated into the annual report.
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 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 website;
• The half-yearly financial report is filed electronically with the AMF and is posted on the Dexia website;
• As required by disclosure regulations, all annual and half-yearly reports are released through an AMF-certified distributor of financial news releases.
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 statement, 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,investors and the press.

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 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, organisation and systems of each entity. These instructions are common throughout the Dexia 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" in this annual report.

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.

By virtue of Article 22 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.

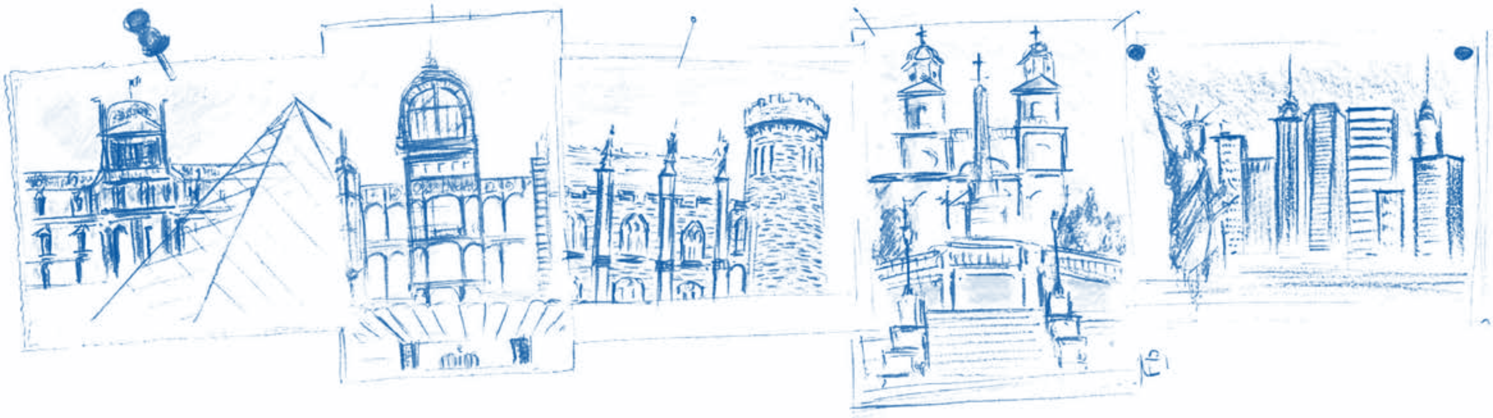
The renewal of the mandates of the principal statutory auditors and the substitute statutory auditors will be proposed at the shareholders' meeting to be held on 19 May 2020 for a term of six financial years to expire at the end of the shareholders' meeting dealing with the financial statements for the financial year which closes on 31 December 2025:
- 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 2019 for Dexia Crédit Local.

Remuneration of Statutory Auditors for 2019

(in thousands of EUR)	Mazars	Deloitte
Certification of statutory and consolidated financial statements – Dexia Crédit Local in Paris	1,240	1,389
Certification of statutory and consolidated financial statements – Other entities	219	98
Other services	7	7



Declaration of corporate governance

Declaration of corporate governance

Reference code

Dexia Crédit Local refers to the AFEP-MEDEF Corporate Governance Code for listed companies (February 2020, 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 staff members. 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 31 March 2020, the Board of Directors was composed of fourteen 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 Mr Wouter Devriendt resigned from his post as director and Chief Executive Officer with effect from 16 November 2019 and was replaced by Mr Bart Bronselaer on an *ad interim* basis. On a proposal from the Appointments Committee, the Board of Directors' meeting held on 16 March 2020 decided to retain the candidacy of Mr. Pierre Crevits and to start the "*Fit & Proper*" procedure to obtain the approval of the European Central Bank with a view to proposing to the shareholders' meeting scheduled for 19 May 2020 the appointment of Pierre Crevits as director and Chief Executive Officer.

As at 31 March 2020, the composition of the Board of Directors of Dexia Crédit Local is as follows:
- Gilles Denoyel, Chairman of the Board of Directors;
- Bart Bronselaer, Chief Executive Officer *ad interim*;
- Véronique Hugues, Executive Vice-President;
- Giovanni Albanese, Executive Vice-President;
- Aline Bec, Director
- Bertrand Dumont, Director;
- Alexandra Serizay, Director;
- Claire Cheremetinski, Director;
- Alexandre De Geest, Director;
- Thierry Francq, Director;
- Michel Tison, Director;
- Koen Van Loo, Director;
- Tamar Joulia-Paris, Director;
- Véronique Tai, Director.

The representatives of the Works Council are:
Mr Philippe Fuchs
Mr Amal Idrissi, Deputy.
Mrs Aurélie Labeau in the capacity of representative of the TMB college

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, on 10 March 2020 the Board of Directors adopted an action plan to avoid any lack of representation of women on the Board of Directors. To date, the Board of Directors is composed of fourteen members, six of whom are women. The Management Board is composed of six members, including one woman.

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 staff members 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 and 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 2019, it met twelve times. The attendance rate was 91%.

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:

- Remedial plan for the European Central Bank
- Impact of Brexit
- Derivatives management
- Contribution to the Single Resolution Fund
- Transformation of the New York branch
- Group liquidity, long-term VLTM financial projections, ICAAP
- SREP
- On-site inspection (OSI) on credit risk
- Acceleration of the deleveraging plan
- Governance: appointing new directors, renewing the mandates of certain directors, succession of the Chief Executive Officer and the self-assessment exercise for the Board of Directors and specialised committees

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 eight times in 2019.

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 31 March 2020 is as follows:

- Alexandra Serizay, independent director and chairman of the committee;
- Tamar Joulia-Paris, 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 statutory and consolidated financial statements, as the case may be, which must then be presented to, approved and published by the Board of Directors. It examines all matters relating to those financial statements 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 2019.
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 31 March 2020 is as follows:
• Michel Tison, independent director and chairman of the committee;
• Bertrand Dumont, director;
• Alexandre De Geest, director;
• Tamar Joulia-Paris, independent director.
The Risk Committee is responsible for monitoring aspects of strategy and level of tolerance with regard to current and future risks. It assists the Board of Directors when the latter supervises the implementation of such strategy by the Management Board. The Risk Committee examines the (operational) implementation of procedures regarding risk control and internal audit. It ensures integrity and adequacy in relation to risk management, including procedures and organisational structures.
The Risk Committee 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 five times in 2019.
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 seven times in 2019.
The Remuneration Committee is composed of at least four 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 31 March 2020 is as follows :
• Tamar Joulia-Paris, independent director and chairman of the committee;
• Gilles Denoyel, independent director;
• Claire Cheremetinski, director;
• Michel Tison, independent director;
• Alexandre De Geest, director.

The Remuneration Committee:
• prepares decisions of the Board of Directors relating to the remuneration of the Chairman of the Board of Directors, the CEO, Executive Vice-Presidents and 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.

The Appointments Committee

The Appointments Committee, established at Dexia Board of Directors level and competent for Dexia Crédit Local, met eight times in 2019.
The Appointments Committee is composed of at least four non-executive directors, including the Chairman of the Board of Directors and at least one independent director within the meaning of Belgian law. The Chief Executive Officer and the Head of Human Resources attend meetings, without being members. The Appointments Committee must have the necessary expertise in appointments policy, appropriately assessing the skills and fields of expertise of people it appoints within the Dexia Group.

The composition of the committee as at 31 March 2020 is as follows:
• Gilles Denoyel, independent director and chairman of the committee;
• Thierry Francq, director;
• Koen Van Loo, director;
• Tamar Joulia-Paris, independent director.
The Appointments Committee prepares decisions of the Board of Directors relating to:
• proposals for the appointment or renewal of directors by the Board of Directors to the shareholders' meeting, and proposals to co-opt directors. On the renewal of a director's mandate, the Appointments Committee assesses the director's participation in the operation of the Board of Directors and reports with a recommendation. For any new appointment, before considering the approval of the candidature, it ensures that the Board of Directors has, in accordance with internal procedures, received sufficient information on the candidate enabling it to assess whether that candidature meets the general profile of directors and the required skills;
• determination of independence criteria enabling a director to be considered "independent":
– The qualification of an existing or new member of the Board of Directors as an independent director.
– In general, the Committee ensures that decision-making within the Board of Directors is not carried out by one or more persons in a manner prejudicial to the company.
– Within the scope of its duties, the Committee adheres to the 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. On a proposal from 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-Presidents. 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, the Executive Vice-Presidents have the same powers as the Chief Executive Officer with respect to third parties.
Mr. Wouter Devriendt, who was appointed by the Board of Directors in May 2016 as Chief Executive Officer, the effective manager of the company, and vested with the broadest powers to act in all circumstances on behalf of the company, resigned from his position as director and Chief Executive Officer with effect from 16 November 2019. He was replaced by Mr. Bart Bronselaer on *an interim* basis. On a proposal from the Appointments Committee, the meeting of the Board of Directors held on 16 March 2020 decided to accept the candidacy of Mr. Pierre Crevits and to start the "*Fit & Proper*" procedure to obtain the approval of the European Central Bank in order to propose to the General Meeting the appointment of Pierre Crevits as director and Chief Executive Officer.
As at 31 March 2020, the Management Board is composed as follows:

- Bart Bronselaer, Chief Executive Officer *ad interim*;
- Véronique Hugues, Executive Vice-President and Chief Financial 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;
- Patrick Renouvin, Executive Vice-President and Chief Operating Officer.

Remuneration Report

Remuneration granted to directors in 2019

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.
The shareholders' meeting also conferred on the Board of Directors the power to determine the practical terms and conditions of this remuneration, consisting of a fixed fee and attendance fees, and its allocation.
Since 1 January 2015, the remuneration of non-executive directors (excluding the Chairman of the Board of Directors) has been composed of fixed attendance fees of EUR 3,000 per quarter (consolidated at the level of the Board of Dexia Crédit Local) and attendance fees of EUR 2,000 for meetings of the Boards of Dexia and Dexia Crédit Local, EUR 1,000 for meetings of the Audit Committee and the Risk Committee, and EUR 750 for meetings of the Appointments Committee and the Remuneration Committee (paid by Dexia). The Chairman of the Audit and Risk Committees is paid for his duties (attendance fees are increased to EUR 1,500 per meeting). In addition, an overall annual ceiling is defined in the sense that a maximum number of meetings is remunerated. Non-executive directors do not receive any performance-related remuneration, such as bonuses and long-term incentive schemes, or benefits in kind and pension benefits. The meeting of the Board of Directors held on 31 March 2020, decided to grant exceptional remuneration of EUR 2,000 each to Aline Bec and Véronique Tai for their participation in two Dexia meetings, participation made necessary for a perfect understanding of the subjects and their impact on Dexia Crédit Local. The Chief Executive Officer and the Executive Vice-Presidents, who are also directors, do not receive any remuneration for their mandate as directors. Their remuneration is detailed in the section below on remuneration paid to the Management Board.
On 29 April 2019 the Board of Directors decided that, in view of the development of the activities and the workforce of the Dexia Group, the remuneration of the Chairman of the Board of Directors, hitherto paid in full by Dexia, was to be paid half by Dexia and half by Dexia Crédit Local. So that the total cost to the Group (including social security charges, employer's contributions) does not increase, the Chairman agreed that his gross remuneration be reduced from EUR 250,000 to approximately EUR 192,000, consisting on the one hand of fixed remuneration and on the other hand of attendance fees paid to all directors.
The above principles were reviewed at the end of 2019, allowing the remuneration structure to be modified to take into account the effective number of meetings of the Board of Directors and the specialised committees, while remaining within the limits of the total cost of EUR 250,000 for Dexia (all social charges and contributions borne by the Dexia Group included). The amount of gross annual remuneration thus allocated is EUR 196,751: EUR 69,000 in the form of attendance fees and EUR 127,751 as salary.

Remuneration paid to directors for the exercise of their mandate with Dexia and in other group entities

(gross amounts in EUR)	BoD (fixed rem. granted by Dexia)	BoD (fixed rem. granted by Dexia Crédit Local)	BoD (attendance fees granted by Dexia)	BoD (attendance fees granted by Dexia Crédit Local)	Exceptional remuneration (granted by Dexia Crédit Local)	Audit Committee	Risk committee	Joint Audit and Risk Committee	Appointments Committee	Remuneration Committee	Total 2018	Total 2019
Directors												
G. Denoyel[1]	59,750	68,001	26,000	34,000	0	0	0	0	5,250	3,750	156,250[8]	196,751
W. Devriendt	0	0	0	0	0	0	0	0	0	0	0	0
G. Albanese	0	0	0	0	0	0	0	0	0	0	0	0
V. Hugues	0	0	0	0	0	0	0	0	0	0	0	0
B. Bronselaer[2]	0	0	22,000	30,000	0	7,000	9,000	3,000	0	0	73,500	71,000
T. Joulia-Paris[1][3]	0	0	18,000	25,000	0	1,000	5,000	4,000	0	3,000	0	56,000
C. Cheremetinski[4][5]	0	0	20,000	28,000	0	0	0	0	0	5,250	0	53,250
A. De Geest	0	0	26,000	34,000	0	0	7,000	5,000	1,500	5,250	69,000	78,750
B. Dumont[4]	0	0	26,000	34,000	0	0	7,000	5,000	0	0	13,000	72,000
Th. Francq[6]	0	0	18,000	30,000	0	7,000	0	2,000	4,500	0	60,750	61,500
M. De Rouck [1][7]	0	0	6,000	12,000	0	0	0	0	1,500	2,250	67,250	21,750
A. Serizay[1]	0	0	26,000	34,000	0	12,000	0	7,500	0	0	66,500	79,500
M. Tison[1]	0	0	26,000	34,000	0	8,000	3,500	5,000	2,250	5,250	75,000	84,000
K. Van Loo	0	0	20,000	32,000	0	0	0	0	5,250	0	60,500	57,250
A. Bec[9][10]	0	0	0	23,000	2,000	0	0	0	0	0	0	25,000
V. Tai[10]	0	0	0	34,000	2,000	0	0	0	0	0	32,000	36,000

(1) Independent directors.
(2) Since 16 November 2019, Mr B. Bronselaer no longer receives remuneration for his director's mandates.
(3) Appointment effective on 23 April 2019.
(4) The payment of attendance fees of representatives of the French State is governed by Article 6 of Order 2014-948 dated 20 August 2014.
(5) Appointment effective on 4 February 2019.
(6) The remuneration of Mr Th. Francq is paid with the following breakdown (15% for the French Treasury) 85% paid to Mr Th. Francq. The remuneration for the year 2019 was paid in April 2020.
(7) Resignation effective on 23 April 2019.
(8) For a period commencing on 16 May 2019.
(9) Until 1 May 2019, Mrs A. Bec received no remuneration for her director's mandate since she was an executive director.
(10) Director of Dexia Crédit Local, non-remunerated observer of Dexia.

Remuneration paid to the Management Board in 2019

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 2019.

Mssrs Wouter Devriendt and Bart Bronselaer, both Chief Executive Officer, 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 members of the Management Board 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 2019 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 2019

Basic remuneration consists solely of a fixed portion.

(in EUR)	Entity – Country	Gross basic remuneration
Wouter Devriendt(1)	Dexia – Belgium	525,000
Bart Bronselaer(2)	Dexia – Belgium	75,000
Giovanni Albanese	Dexia Crédit Local – France	465,044
Aline Bec(3)	Dexia Crédit Local – France	150,000
Benoît Debroise	Dexia Crédit Local – France	407,378
Véronique Hugues	Dexia Crédit Local – France	445,000
Patrick Renouvin(4)	Dexia Crédit Local – France	318,268
Guy Cools(5)	DCL New York – United States	641,351

(1) Chairman of the Management Board until 15 November 2019.
(2) Chairman of the Management Board as from 16 November 2019.
(3) Chief Operating Officer until 30 April 2019.
(4) Chief Operating Officer as from 15 April 2019.
(5) This remuneration, paid in US dollars and expressed at the annual average EUR/USD rate, is for his functions as CEO of Dexia Crédit Local New York and Dexia Financial Products Services and takes account of his 30 years of service in the Dexia Group. The mandate of executive Vice-President of Dexia Crédit Local is exercised free.

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 scheme 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 2019 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 2019 the remuneration exceeded this contribution ceiling (EUR 250,109).

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

Annual premiums of EUR 274,042 were paid in 2019. Obligatory contributions paid to pension funds, particularly 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	115,766
Bart Bronselaer	Dexia – Belgium	-
Giovanni Albanese	Dexia Crédit Local – France	-
Aline Bec	Dexia Crédit Local – France	-
Benoît Debroise	Dexia Crédit Local – France	-
Véronique Hugues	Dexia Crédit Local – France	-
Patrick Renouvin	Dexia Crédit Local – France	-
Guy Cools	DCL New York – United States	20,009

Supplementary death cover, permanent invalidity and health costs

Collective annual premiums of EUR 114,219 were paid in 2019 for supplementary death cover, permanent invalidity and health 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 specific to each country, salaries and financial situations and in particular the number of dependent children.

(in EUR)	Entity – Country	Death cover, orphans	Invalidity	Health costs
Wouter Devriendt	Dexia – Belgium	38,262	15,066	490
Bart Bronselaer	Dexia – Belgium	2,834	1,432	46
Giovanni Albanese(1)	Dexia Crédit Local – France	1,809	772	5,532
Aline Bec(1)	Dexia Crédit Local – France	603	257	1,844
Benoît Debroise(1)	Dexia Crédit Local – France	1,809	772	5,532
Véronique Hugues(1)	Dexia Crédit Local – France	1,809	772	5,532
Patrick Renouvin(1)	Dexia Crédit Local – France	1,221	521	3,735
Guy Cools	DCL New York – United States	804	447	22,318

(1) Staff members who, as employees, must be affiliated to the collective contract concerning all staff members of Dexia Crédit Local.

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

(in EUR)	Entity – Country	Representation costs	Telephone allowance[(1)]	Car allowance[(1)]
Wouter Devriendt	Dexia – Belgium	3,355	158	3,473
Bart Bronselaer	Dexia – Belgium	-	30	411
Giovanni Albanese	Dexia Crédit Local – France	-	-	-
Aline Bec	Dexia Crédit Local – France	-	-	1,035
Benoît Debroise	Dexia Crédit Local – France	-	-	3,641
Véronique Hugues	Dexia Crédit Local – France	-	-	1,296
Patrick Renouvin	Dexia Crédit Local – France	-	-	3,687
Guy Cools	DCL New York – United States	-	-	16,865

(1) This amount corresponds to the tax advantage associated with the provision of a company car/ telephone which can also be used for private purposes, with the exception of the person present in New York who receives a lease allocation.

Option plan

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

Severance conditions

Provisions relating to severance payments under 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 nine 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 and Messrs Giovanni Albanese, Guy Cools, Benoît Debroise and Patrick Renouvin.

Departures during the year 2019

Mr Wouter Devriendt left Dexia with effect from 15 November 2019. No severance payment was paid on that occasion. Mrs Aline Bec retired with effect from 30 April 2019. As she had less than five years service and in accordance with the collective bargaining agreement, she received no severance payment on retirement.

Information on the service contracts binding the 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.

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 March 2020.

Mr Gilles Denoyel
Professional address: Tour CBX – 1, Passerelle des Reflets – La Défense 2 – 92919 La Défense Cedex
4 August 1954
• Chairman of the Board of Directors of Dexia, independent director (non-executive)
• Director of Trust BK
• Director and Chairman of the committee for monitoring the nuclear commitments of EDF

Mr Bart Bronselaer
Professional address: Tour CBX – 1, Passerelle des Reflets – La Défense 2 – 92919 La Défense Cedex
6 October 1967
• Chief Executive Officer and Chairman of the Management Board *ad interim* (executive) of Dexia
• Independent director of United Pensions OFP

Mr Giovanni Albanese
Professional address: Tour CBX – 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: Tour CBX – 1, Passerelle des Reflets – La Défense 2 – 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: Tour CBX – 1, Passerelle des Reflets – La Défense 2 – 92919 La Défense Cedex
24 January 1957
• Observer within the Board of Directors 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 Alexandre De Geest
Professional address, 30, Avenue des Arts – 1040 Brussels (Belgium)
5 February 1971
• Non-executive director of Dexia
• CEO of de SFP Finances-Trésorerie
• Chairman of the Protection Fund for 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 PDG of the Covea group

Mr Michel Tison
Professional address: Universiteitstraat, 4 – 9000 Ghent (Belgium)
23 May 1967
• Independent director of Dexia (non-executive)
• 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
• CEO of the Federal Holding and Investment Company (FHIC)
• Director of Capricorn ICT Fund
• Director of Capricorn Sustainable Chemistry Fund
• Non-executive director of Certi-Fed
• Director of Sinnolabs Hong Kong Ltd
• Director of Thaumas NV
• Director of Euroports Group BV

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

The French State represented by Claire Cheremetinski
Professional address: 139, Rue de Bercy - 75572 Paris Cedex 12
2 May 1976
• Non-executive director of Dexia
• Head of bilateral affairs 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 Tai
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 Tamar Joulia-Paris
Professional address: Avenue des Statutaires, 25 – 1180 Uccle (Belgium)
• 5 October 1952
• Independent director of Dexia (non-executive)
• Executive director of TJP Capital

Information on non-regulated agreements

Article L.225-102-1 of the Commercial Code requires that companies list in their management report all agreements reached directly or via third parties between:

- a director, the Chief Executive Officer, one of the Executive Vice-Presidents of the company or one of its shareholders with voting rights higher than 10%, on the one hand; and
- companies in which the company directly or indirectly has a 50% holding or higher, on the other hand.

Agreements relating to 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.

(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.

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.

Structure of the share capital

As at 31 December 2019, 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 read the Board of Directors' report, the report by the Chairman of the Board of Directors and the Auditors' report, the ordinary shareholders' meeting approves the annual financial statements as at 31 December 2019 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 393,202,644.89.
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 29,824.88 which has not brought about additional corporation tax bearing in mind the tax loss for the 2019 financial year.

Proposal to approve the consolidated financial statements

After having read the Board of Directors' report, the report by the Chairman of the Board of Directors and the Auditors' report, the ordinary shareholders' meeting approves the consolidated financial statements as at 31 December 2019 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 loss group share of EUR 784,175,413.

Proposal to approve regulated agreements

After having read the Auditors' special report on regulated agreements and commitments referred to in Article L. 225-38 of the French Commercial Code, the ordinary shareholders' meeting approves the regulated agreements 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 2019.

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 2019.

Proposal to appropriate the profit/loss

The ordinary shareholders' meeting decides to charge the positive result for the financial year, amounting to EUR 393,202,644,89 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 1,009,483,942.86.
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 that the auditors certify the financial statements

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 2019 have been audited by the Auditors:
- Mrs Claire Gueydan and Virginie Chauvin, partners, representing the company Mazars, on the one hand; and
- Mr Jean-Vincent Coustel, partner, representing the company Deloitte & Associés, on the other hand.

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 2019, which amounts to EUR 10,117,798 (fixed salary and any bonuses).
This remuneration bill thus covers remuneration paid in 2019 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 Pierre Crevits 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 Pierre Crevits, of Belgian nationality and domiciled at Rue des Pacages, 15 – 5100 Wierde (Belgium), with effect as from the close of the shareholders' meeting, for a term of four years, expiring at the ordinary shareholders' meeting to be held in 2024 and called to rule on the financial statements for the financial year closed on 31 December 2023.

Proposal to renew the mandate of Mrs Aline Bec as a director

The ordinary shareholders' meeting decides, in accordance with the provisions of Article L.225-18 of the French Commercial Code, to renew the director's mandate of Mrs Aline Bec, of French nationality and domiciled at 10, Route de Croissy, Le Vésinet (78110), coming to expiry, and until the ordinary shareholders' meeting to be held in 2024 and called to rule on the financial statements for the financial year closed on 31 December 2023.

Proposal to renew the mandate of Mrs Alexandra Serizay as a director

The ordinary shareholders' meeting decides, in accordance with the provisions of Article L.225-18 of the French Commercial Code, to renew the director's mandate of Mrs Alexandra Serizay, of French nationality and domiciled at 77, Rue de Rennes, Paris (75016), coming to expiry, and until the ordinary shareholders' meeting to be held in 2024 and called to rule on the financial statements for the financial year closed on 31 December 2023.

Proposal to renew the mandate of 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 renew the director's mandate of Mr Giovanni Albanese, of Italian nationality and domiciled at 5b, Rue de Centre, Neuilly sur Seine (92200), coming to expiry, and until the ordinary shareholders' meeting to be held in 2024 and called to rule on the financial statements for the financial year closed on 31 December 2023.

Proposal to renew the mandate of the Board of Statutory Auditors – Deloitte

The ordinary shareholders' meeting decides, in accordance with the provisions of Article L.823-1 of the French Commercial Code, to renew the mandate of the Board of Statutory Auditors and of the Deputy Auditors represented by Deloitte for the Statutory Auditor and by B.E.A.S. for the Deputy Auditor for a term of six financial years expiring at the end of the shareholders' meeting called to approve the financial statements for the financial year ending 31 December 2025.

Proposal to renew the mandate of the Board of Statutory Auditors – Mazars

The ordinary shareholders' meeting decides, in accordance with the provisions of Article L.823-1 of the French Commercial Code, to renew the mandate of the Board of Statutory Auditors and of the Deputy Auditors represented by Mazars for the Statutory Auditor and by Charles de Boisriou for the Deputy Auditor for a term of six financial years expiring at the end of the shareholders' meeting called to approve the financial statements for the financial year ending 31 December 2025.

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

Shareholders' meeting held to approve the financial statements for the year ended December 31, 2019

To the shareholders,
In our capacity as statutory auditors of your company, we hereby report to you on regulated agreements.
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 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. 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 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

Agreements authorized and concluded during the past financial year

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

Agreements not previously authorized

Pursuant to Articles L. 225-42 and L. 823-12 of the French Commercial Code, we inform you that the following agreement has not been subject to prior authorization by your Board of Directors.
It is our responsibility to inform you of the circumstances under which the authorization procedure was not followed.

Agreement for the granting of exceptional compensation to two directors of Dexia Crédit Local (hereafter "DCL") for the financial year 2019

Persons concerned:
– Mrs. Aline Bec, director of Dexia Crédit Local and observer on the Board of Directors of Dexia SA/NV (hereinafter "DSA")
– Ms. Véronique Tai, director of Dexia Crédit Local and observer on the Board of Directors of DSA.

The DCL Board of Directors of March 31st, 2020 authorized a posteriori, the terms of this mission that could not be definitively finalized until after participation in the boards of directors, the allocation of an exceptional compensation of EUR 2,000 euros to the two directors Ms. Aline Bec and Ms. Véronique Tai regarding the preparatory work and the participation in two meetings of the board of directors of DSA on March 26th, 2019 and July 19th, 2019.
This exceptional compensation is included in the scope of article L.225-46 of the French commercial code. The total amount of exceptional compensation paid to them in respect of the 2019 financial year is up to EUR 2,000 each, so EUR 4,000.

The Board of Directors considered that it was in DCL's interest to approve the compensation agreement regarding the preparation and the participation of the two directors on two boards of DSA Company, considering the nature and the impacts on DCL.
For technical reasons, this agreement could not be approved in advance. We would like to inform you that, at its meeting of March 31st, 2020, your Board of Directors decided to retroactively authorize this agreement.

Agreements previously approved by shareholders 'meeting

Agreements approved in previous years

a) Whose execution continued during the past financial year

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

Agreement allowing DCL to use subsidiaries' receivables as collateral

Persons concerned:
Mr. Alain Clot, former director of DCL and Dexia Crediop, 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 2019:
As at December 31, 2019, the assets concerned totaled EUR 18,3 billion and comprised:
- EUR 17,8 billion of DCL receivables ;
- EUR 555 million of DCL leasing subsidiary receivables.

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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, then joint director of DCL and DSA, his term of office expired on May 15, 2018;

– Mr Karel De Boeck, then joint director of DCL and DSA, his term of office expired on 17 May 2016;

– Mr. Claude Piret, joint CEO of DCL and DSA, his term of office expired on October 14, 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 terminated on December 31, 2013.

As at 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 2019, the cost of the guarantee for DCL amounted to EUR 32.6 million.

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 terminated on December 31, 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 May 7, 2013, based on the Statutory Auditors' special report of April 2, 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.

In 2019, DCL recorded EUR 0.8 million in commission income for the year under this agreement.

b) Agreements having no impact on 2019 financial year

In addition, we have been informed of the continuation of the following agreements, already approved by shareholders' meeting during previous years, which have not been executed during the past financial year.

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

Persons concerned:

– Mr. Philippe Rucheton, then director and deputy managing director of DCL, chairman of the Supervisory Board of Dexia Municipal Agency (hereafter "DMA"), his terms of office at DCL ended on December 31, 2013;

– Mr. Alain Clot, then director and deputy managing director of DCL, member of the Supervisory Board of DMA, his terms of office at DCL ended 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 2019.

DCL sold these shares for EUR 1 on January 28, 2013.

Litigation management agreement for disputed loans

Persons concerned:

– Mr. Philippe Rucheton, then director and deputy managing director of DCL, chairman of the Supervisory Board of DMA, his term of office with DCL ended on December 31, 2013;

– Mr. Alain Clot, then director and deputy managing director of DCL, member of the Supervisory Board of DMA, his term of office with DCL ended on December 31, 2013.

On January 31, 2013, DMA, DCL and SFIL signed an agreement for the management of litigation 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 2019.

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

Persons concerned:

– Mr. Jean-Luc Dehaene, then joint director of DCL, DSA, BIL and DBB, his term of office at DCL ended on June 29, 2012;

– Mr. Pierre Mariani, then joint director of DCL, DSA, BIL and DBB, his term of office ended at DCL on August 2, 2012;

– Mr. Pascal Poupelle, then joint director of DCL and Dexia Crediop, his term of office ended at DCL on December 31, 2010;

– Ms Francine Swiggers, then joint director of DCL, DSA and DBB, whose term of office at DCL ended on 10 November 2012.

The Dexia Group Master Netting Agreement ("DGMNA") was concluded on November 2, 2009 between DCL, DSA, BIL, Belfius and Dexia Crediop.

The DGMNA allows the parties to offset amounts due in the context of transactions governed by different agreements, such as in particular the ISDA Master Agreements or other master agreements on financial instruments ("Main Agreements"). The main purpose of the DGMNA is to allow netting in the event of default by one of the parties and therefore allows netting only when the transactions governed by the Master Agreements are accelerated, terminated, liquidated or cancelled (hereafter "Close Out").

When a party is in default according to DGMNA, each of the other non-defaulting parties may elect to Close Out all transactions governed by the Master Agreements to which that non-defaulting party is a party.

BIL and Belfius are no longer part of the DGMNA since January 29, 2014 and November 2, 2015 respectively.

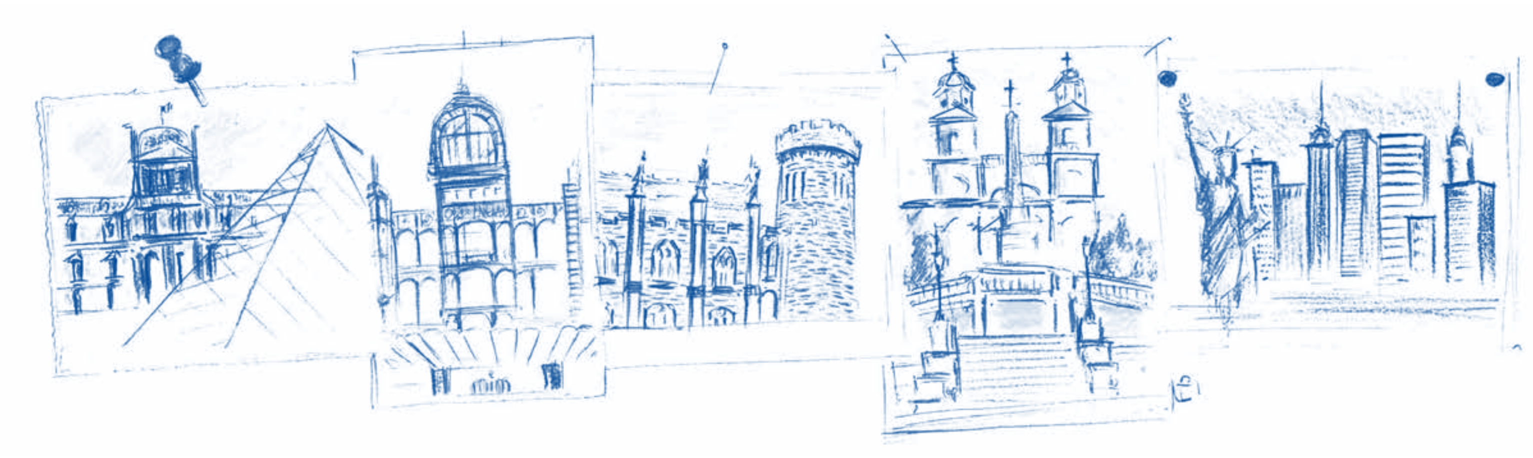
This agreement was approved by the shareholders' meeting of May 19, 2015 based on the Statutory Auditors' special report of March 31, 2015.

In the lack of default by the companies concerned, this agreement had no impact on 2019 financial year.

Paris La Défense and Courbevoie, April 10, 2020

French Original signed by the Statutory Auditors

DELOITTE & ASSOCIÉS	MAZARS	
Jean-Vincent COUSTEL	Virginie CHAUVIN	Claire GUEYDAN



Consolidated Financial Statements as at 31 December 2019

Consolidated balance sheet

ASSETS (in EUR million)	Note	31/12/2018	31/12/2019
Cash and central banks	2.2	9,269	9,211
Financial assets at fair value through profit or loss	2.3 & 4.1	13,420	14,247
Hedging derivatives	4.1	1,263	1,378
Financial assets at fair value through other comprehensive income	2.4	4,860	2,837
Financial assets at amortised cost - Debt securities	2.5	45,128	36,012
Financial assets at amortised cost - Interbank loans and advances	2.6	23,654	23,066
Financial assets at amortised cost - Customer loans and advances	2.7	35,143	31,771
Fair value revaluation of portfolio hedges		748	576
Current tax assets		37	14
Deferred tax assets	4.2	20	20
Accruals and other assets	2.8	388	155
Non current assets held for sale	4.6	24,387	0
Tangible fixed assets	2.9	2	48
Intangible assets	2.10	37	29
TOTAL ASSETS		**158,356**	**119,364**

The notes on pages 63 to 138 are integral part of these consolidated financial statements.

LIABILITIES (in EUR million)	Note	31/12/2018	31/12/2019
Financial liabilities at fair value through profit or loss	3.1 & 4.1	11,872	14,779
Hedging derivatives	4.1	21,151	19,184
Interbank borrowings and deposits	3.2	20,930	12,003
Customer borrowings and deposits	3.3	4,873	3,851
Debt securities	3.4	67,959	62,728
Fair value revaluation of portfolio hedges		13	7
Current tax liabilities		3	2
Deferred tax liabilities	4.2	24	32
Accruals and other liabilities	3.5	400	325
Liabilities included in disposal groups held for sale	4.6	24,055	0
Provisions	3.6	226	118
Subordinated debt	3.7	126	20
Total liabilities		**151,632**	**113,049**
Equity	3.8	**6,724**	**6,315**
Equity, Group share		6,444	6,311
Capital stock and related reserves		2,465	2,465
Consolidated reserves		5,041	5,020
Gains and losses directly recognised in equity		(806)	(390)
Net result of the period		(256)	(784)
Minority interests		280	4
TOTAL LIABILITIES AND EQUITY		**158,356**	**119,364**

The notes on pages 63 to 138 are integral part of these consolidated financial statements.

Consolidated statement of income

(in EUR million)	Note	31/12/2018	31/12/2019
Interest income	5.1	7,864	7,350
Interest expense	5.1	(7,777)	(7,331)
Commission income	5.2	11	10
Commission expense	5.2	(15)	(17)
Net gains (losses) on financial instruments at fair value through profit or loss	5.3	(144)	(15)
Net gains (losses) on financial instruments measured at fair value through other comprehensive income	5.4	11	(119)
Net gains (losses) arising on derecognition of financial assets measured at amortised cost	5.5	(14)	(208)
Net gains (losses) on reclassification of financial assets measured at amortised cost into fair value through profit or loss	2.13	0	(314)
Other income	5.6	17	57
Other expenses	5.7	(21)	(44)
NET BANKING INCOME		**(68)**	**(631)**
Operating expenses	5.8	(348)	(330)
Depreciation, amortisation and impairment of tangible fixed assets and intangible assets	5.9	(17)	(28)
GROSS OPERATING INCOME		**(433)**	**(989)**
Cost of credit risk	5.10	128	265
OPERATING INCOME		**(305)**	**(724)**
Net gains (losses) on other assets	5.11	9	0
NET RESULT BEFORE TAX		**(296)**	**(724)**
Income tax	5.12	(8)	17
Result from discontinued operations, net of tax	4.6	22	(117)
NET INCOME		**(282)**	**(824)**
Minority interests		(26)	(40)
NET INCOME, GROUP SHARE		**(256)**	**(784)**

The notes on pages 63 to 138 are integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

(in EUR million)	31/12/2018			31/12/2019		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
NET INCOME			**(282)**			**(824)**
Elements reclassified or likely to be subsequently reclassified in net income						
Cumulative translation adjustments	26	0	26	13	0	13
Changes in fair value of debt instruments at fair value through other comprehensive income	77	0	77	36	0	36
Revaluation of hedging derivatives	345	(1)	344	143	1	144
Other comprehensive income from disposal groups held for sale(1)	(287)	1	(286)	238	0	238
Elements that will never be reclassified or likely to be subsequently reclassified in net income						
Actuarial gains and losses on defined benefit plans	1	0	1	(3)	0	(3)
Own credit risk revaluation directly recognised in equity for the financial liabilities designated at fair value through profit or loss (FVTPL)	(5)	1	(4)	(7)	(6)	(13)
Transfer within consolidated reserves of own credit risk amounts related to financial liabilities designated at fair value through profit or loss, upon their derecognition(2)	(24)	0	(24)			
Reevaluation directly recognised in equity of equity instruments at fair value through other comprehensive income	1	0	1	1	0	1
Transfer within consolidated reserves of reevaluation of equity instruments at fair value through other comprehensive income, upon their derecognition				(1)	0	(1)
TOTAL UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY	**134**	**1**	**135**	**420**	**(5)**	**415**
NET RESULT AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY			**(147)**			**(409)**
of which, Group share			(102)			(368)
of which, Minority interests			(45)			(41)

(1) 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.
In 2019, the exit from the scope of consolidation of Dexia Kommunalbank Deutschland generates a movement of EUR 238 million.
(2) Termination Guaranteed Investment Contracts (GICs).

The notes on pages 63 to 138 are integral part of these consolidated financial statements.

Consolidated statement of changes in equity

(in EUR million)	Capital stock and related reserves: Capital	Capital stock and related reserves: Related reserves	Capital stock and related reserves: Total	Consolidated reserves	Gains and losses: Change in fair value of debt instruments measured at fair value through other comprehensive income, net of taxes	Gains and losses: Change in fair value of equity instruments measured at fair value through other comprehensive income, net of taxes	Gains and losses: Change in fair value of cash flow hedges, net of taxes
AS AT 1 JANUARY 2018	**279**	**2,186**	**2,465**	**5,016**	**(247)**	**(1)**	**(922)**
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							136
Gains and losses on cash flow hedge derivatives reclassified in profit or loss							(30)
Changes in fair value of financial liabilities designated at fair value through profit or loss arising from changes in own credit risk (OCR)							
Changes in actuarial gains and losses on defined benefit plans							
Transfers[(1)]					(1)		239
Subtotal of changes in gains and losses directly recognised in equity				**24**	**77**	**1**	345
Net income for the period							
Impact disposal Dexia Israel							
Other variations				1			
AS AT 31 DECEMBER 2018	**279**	**2,186**	**2,465**	**5,041**	**(170)**	**0**	**(577)**
Movements during the period							
Appropriation of net income 2018				(256)			
Subtotal of shareholders related movements				**(256)**			
Translation adjustments							
Changes in fair value of financial assets measured at fair value through other comprehensive income, through equity					25	1	
Equity instruments at fair value through other comprehensive income: transfer of the cumulative gain or loss within equity				1		(1)	
Amounts reclassified to profit or loss following the impairment or the disposal of debt instruments measured at fair value through other comprehensive income					109		
Reclassification from financial assets at amortized cost to financial assets at fair value through other comprehensive income (change in business model)[(2)]					(98)		
Reclassification from financial assets at amortized cost to financial assets at fair value through profit or loss (change in business model)[(2)]							124
Gains and losses of the period of cash flow hedge derivatives, through equity							(6)
Gains and losses on cash flow hedge derivatives reclassified in profit or loss							24
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							
Subtotal of changes in gains and losses directly recognised in equity				**1**	**36**	**0**	**142**
Net income for the period							
Impact disposal Dexia Kommunalbank Deutschland							
Impact of the increase of the percentage interest in Dexia Crediop				234		1	4
AS AT 31 DECEMBER 2019	**279**	**2,186**	**2,465**	**5,020**	**(134)**	**1**	**(432)**

(1) 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.
(2) See note 2.13 Reclassification of financial assets at amortised cost into financial assets at fair value through profit or loss and into financial assets at fair value through other comprehensive income.

The notes on pages 63 to 138 are integral part of these consolidated financial statements.

directly recognised in equity					Net income, Group share	EQUITY, GROUP SHARE	Minority interests			EQUITY
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	
29	**(4)**	**75**	**110**	**(960)**		**6,521**	**356**	**20**	**376**	**6,897**
			25	25		25			0	25
		(24)		(24)		0			0	0
				156		156			0	156
				(77)		(77)			0	(77)
				136		136			0	136
				(30)		(30)			0	(30)
		(4)		(4)		(4)			0	(4)
	1			1		1			0	1
(238)				0		0			0	0
(238)	**1**	**(28)**	**25**	**183**		**207**			**0**	**207**
					(256)	(256)	(26)		(26)	(282)
(29)				(29)		(29)	(51)	(19)	(70)	(99)
				0		1			0	1
(238)	**(3)**	**47**	**135**	**(806)**	**(256)**	**6,444**	**279**	**1**	**280**	**6,724**
					256	0			0	0
					256	**0**			**0**	**0**
			13	13		13			0	13
				26		26			0	26
				(1)		0			0	0
				109		109			0	109
				(98)		(98)			0	(98)
				124		124			0	124
				(6)		(6)			0	(6)
				24		24			0	24
		(12)		(12)		(12)			0	(12)
	(2)			(2)		(2)			0	(2)
0	**(2)**	**(12)**	**13**	**177**		**178**			**0**	**178**
					(784)	(784)	(40)		(40)	(824)
238				238		238			0	238
	(3)			2		236	(234)	(2)	(236)	0
0	**(8)**	**35**	**148**	**(390)**	**(784)**	**6,311**	**4**	**0**	**4**	**6,315**

Consolidated cash flow statement

(in EUR million)	31/12/2018	31/12/2019
CASH FLOW FROM OPERATING ACTIVITIES		
Net income after income taxes	(282)	(824)
Adjustment for:		
- Depreciation, amortization and other impairment	16	28
- Impairment losses (reversal impairment losses) on bonds ,loans and other assets	(121)	(328)
- Net (gains) or losses on investments	(25)	95
- Net increases (net decreases) in provisions	6	(113)
- Unrealised (gains) or losses on financial instruments	64	221
- Deferred taxes	10	2
Changes in operating assets and liabilities	(282)	(17)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**(614)**	**(936)**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(19)	(12)
Sale of fixed assets	0	13
Sales of unconsolidated equity shares	33	6
Sales of subsidiaries and of business units(1)	(632)	328
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**(618)**	**335**
CASH FLOW FROM FINANCING ACTIVITIES		
Reimbursement of subordinated debts(2)	(34)	(106)
Cash outflow related to lease liabilities	0	(10)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	**(34)**	**(116)**
NET CASH PROVIDED	**(1,266)**	**(717)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**11,832**	**10,614**
Cash flow from operating activities	(614)	(936)
Cash flow from investing activities	(618)	335
Cash flow from financing activities	(34)	(116)
Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents	48	26
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**10,614**	**9,923**
ADDITIONAL INFORMATION		
Income tax paid	(15)	(17)
Dividends received	5	9
Interest received	9,434	7,662
Interest paid	(9,261)	(7,707)

(1) 31/12/2018: Disposal of Dexia Israel.
31/12/2019: Disposal of Dexia Kommunalbank Deutschland (DKD).
(2) See note 3.7.b.

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

Notes to the consolidated financial statements

1. Accounting policies and valuation methods, ownership interests 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 IFRS 16 "Leases"on the balance as at 1st January 2019

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 31 March 2020.

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 2019, 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 2019 were prepared in line with the accounting rules applicable to a going concern in accordance with IAS 1 § 25 and 26. This requires a number of constituent assumptions underlying the business plan for the resolution of the Dexia Crédit Local Group, decided upon by the European Commission in December 2012 and established on the basis of the elements available on the date the financial statements were approved by the Board of Directors. In particular:

- 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 2019 and validated by the Board of Directors of Dexia Crédit Local on 19 December 2019 integrates the regulatory developments known to that date, including the final version of the CRD IV Directive. It also takes account of the non-renewal, as from 1 January 2019, of the specific approach granted by the European Central Bank for the supervision of the Dexia Crédit Local Group. This update does not integrate the results of the on-site inspection (OSI) by the European Central Bank on operational risk and outsourced activities, on which the definitive report has not yet been received by Dexia Crédit Local.
- 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 Luxemburg States as well as on its capacity to raise secured funding.
- The latest update of the business plan takes account of a revision of the funding plan relying on the last observable market conditions. Dexia Crédit Local has continuously reduced its funding requirement and extended the maturity of the funding raised, with a view to the prudent management of its liquidity. This enables it 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. As at the end of 2019, Dexia Crédit Local had a liquidity buffer amounting to EUR 19.4 billion, half of which consisted of cash.
- The acceleration of the deleveraging decided during the summer 2019, combined with the sale of DKD, led to a EUR 32 billion decrease of the Dexia Crédit Local's funding requirement over the year, partially driven by a rapid reduction of the funding requirement in US dollar. The achievement of

the funding programme in 2019, in line with the budget, as well as the successful launch of its first 2020 7-year benchmark issue for EUR 1.5 billion is a reflection of the good funding capacity of Dexia Crédit Local which resilience vis-à-vis the risk of liquidity, in normal market circumstances, strongly improved in 2019. Finally, the confirmation by the European Commission of the prolongation of the liquidity guarantee provided by the French and Belgian States beyond 31 December 2021 for up to EUR 75 billion provides great comfort for the continuation of the Dexia Group's orderly resolution.

• The business plan assumes the maintenance of the banking licences of Dexia Crédit Local and the maintenance of the Dexia Crédit Local rating at the level of Investment Grade.

• When assessing the appropriateness of the going concern, the Dexia management has challenged the consistency of the strategic choices made by its shareholders with long-term financial forecasts. The management also factored in the constraints and uncertainties related to its operating model as well as the risk attached to its operational continuity, given its specific nature of a bank in run-off, and took the appropriate actions to mitigate such risks.

Uncertainties remaining with regard to implementation of the business plan over the duration of the Dexia Group's resolution led to regular reviews and adjustments to the original plan and, over time, may involve a significant change of the resolution trajectory as initially anticipated. In particular, this plan is likely to be impacted by new developments in accounting and prudential rules.

Dexia and Dexia Crédit Local are also very 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 the Dexia and Dexia Crédit Local's liquidity and its solvency position. It could also impact the valuation of financial assets, 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 the regulatory capital. In particular, considering decisions taken by Dexia's Board of Directors in relation to the implementation of two asset sales programmes, for a total amount of approximately EUR 18 billion, Dexia Crédit Local is exposed to the evolution of macroeconomic conditions and market parameters on these assets until their effective disposal.

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

At this stage, these uncertainties 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 the "going concern" principles pursuant to IAS 1.

Moreover, Dexia Crédit Local is closely monitoring the evolution of the situation linked to the spread of the Covid-19 coronavirus throughout the world and particularly in Europe. On the date of approval of the Dexia Crédit Local's financial statements by the Board of Directors, the severity of the pandemic has had major consequences on the financial markets. It will have a severe impact on economic growth and could lead to a deterioration in the quality of the assets held by Dexia Crédit Local that cannot be assessed at this stage.

Dexia Crédit Local has rapidly implemented the necessary measures to ensure operational continuity within the context of a confinement of staff members and subcontractors. Its liquidity reserves enable it to cope with the tensions existing on the money market on the date of approval of the financial statements by the Board of Directors and the measures announced by the supervisors to relax solvency ratios increase its excess capital buffer.

As a consequence, after taking account of all these elements developed in part in Appendix 1.5.2. to the consolidated financial statements in this annual report, Dexia Crédit Local management confirms that, at the end of 2019, the financial statements can be prepared in accordance with the rules applicable to a going concern in accordance with IAS 1 § 25 and 26. The subsequent analysis of the effects of the Covid-19 crisis carried out by Dexia Crédit Local management has not led to call into question the assessment of the going concern agreement.

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 and 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.);

• identification of a lease contract, assessment of the reasonable certainty of exercising or not exercising any extension or early termination options of a lease, classification of leases (as a lessor) (see 1.1.18.).

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 recognized for impairment of financial assets under IFRS 9: establishment of the number and relative weightings of forward-looking scenarios and determination of the forward looking information relevant to each scenario, determination of Probability of Default (PD) and Loss Given Default (LGD) (see 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., 3.6.);
- estimate of future taxable profit for the recognition and measurement of deferred tax assets (see 1.1.20.);
- determination of the value of right-of-use assets and lease liabilities of lease contract: determination of the lease period, determination of the discount rate to assess the present value of lease payments, determination of any impairment of the right-of-use asset (see 1.1.18.);
- determination of the uncertainty over income tax treatments (see 1.1.20.) and other provisions for liabilities and charges (see 1.1.22.)

IBOR Reform

Following the weaknesses revealed by the financial crisis regarding the IBOR interbank rate indexes, a reform has been launched at international level following the recommendation of the Financial Stability Board in order to strengthen the reliability of benchmark methodologies and to replace current benchmark rates by new risk-free rates. Financial instruments based on the current benchmark rates will have to be amended in order to reflect the new rates. At this stage, uncertainties still remain as to the timetable and exact replacement conditions of the indexes.

Within the European Union, the regulation EU 2016/1011 of 8 June 2016 (known as "the Benchmarks Regulation" or "BMR") applicable as from 1 January 2018 introduces a common legal framework regarding the provision of benchmarks. As part of the implementation of this regulation, the administrators of EONIA, EURIBOR and LIBOR were required to review and, if necessary, to modify the methodologies used for these indexes in order to make them compliant to the new BMR provisions.

In the euro zone, EONIA will be replaced by €STR as from 1 January 2022. EONIA will be maintained during the transition period and as from 2 October 2019 it is based on €STR (EONIA = €STR + 8.5 bps). Regarding EURIBOR, a new so-called "hybrid" methodology was recognized as BMR compliant as from July 2019 and this rate was added to the benchmark register of the European Securities and Markets Authority (ESMA).

Regarding LIBOR, the new SOFR and SONIA indexes, intended to replace the LIBOR USD and LIBOR GBP indexes respectively, are published as from 2018 but the publication of the latter will continue at least until the end of 2021. Greater uncertainties remain as regards transactions using the LIBOR index.

Dexia Crédit Local holds financial instruments indexed to the benchmark rates targeted by the reform and is mainly exposed to indexes in EUR, USD and GBP currencies. Moreover, the valuation of Dexia Crédit Local derivative contracts will also be impacted by changes in cash collateral agreements with OTC counterparties or clearing houses. For derivative contracts with clearing houses, the transition to €STR and SOFR for the remuneration of cash collateral and the discounting is scheduled for 22 June 2020 and 19 October 2020 respectively.

A project structure has been set up within Dexia Crédit Local since the second half of 2018 in order to ensure the transition to the new benchmark rates. This project involves all of Dexia Crédit Local's business lines and functions. It aims to anticipate the impacts of the reform from a legal, commercial, financial, accounting and operational viewpoint and to implement the transition process to the new indexes while reducing the risks linked to this transition and respecting the deadlines defined by the regulators. The reporting on the progress of the project was done on regular basis to the Management Board as well as to the Board of Directors.

This reform could have impacts on the accounting treatment and measurement of financial assets and liabilities using these benchmarks as well as on the accounting treatment of the related hedging derivatives. The IASB has launched the research project on this topic with the aim to limit the potential accounting impacts of the reform. An amendment to the current accounting standards regarding hedge accounting was published in September 2019 and deals with issues in the pre-replacement period (see paragraph 1.1.2.1.). A second text on the accounting issues after the entry into force of the new benchmark rates is expected in 2020 and will deal in particular with derecognition and modification of financial assets and liabilities indexed to the benchmark rates targeted by the reform and with hedge accounting.

In this context, Dexia Crédit Local considers that under the current market conditions and following the clarifications of the IASB on the accounting impacts presented in paragraph 1.1.2.1. (Amendment to IFRS 9, IAS 39, IFRS 7 "Interest Rate Benchmark Reform"), the IBOR reform does not affect as of 31 December 2019 its existing hedging relationships documented under IAS 39.

Brexit

Dexia Crédit Local follows the progress of the discussions and their possible consequences, and they are, when appropriate, taken into account in assumptions and estimates used in preparing its consolidated financial statements. Dexia Crédit Local 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 2019.

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

1.1.2.1. IASB texts and IFRIC interpretations endorsed by the European Commission and applied as from 1 January 2019

- The new **IFRS 16 "Leases"** standard, in replacement of IAS 17 standard and related interpretations, sets out principles 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.

The updated accounting policies to take into account IFRS 16 for leases as applied from 1st January, 2019 are presented in note 1.1.18.

In accordance with the transitional provisions of IFRS 16, Dexia Crédit Local has chosen not to restate comparative information for prior periods (simplified retrospective approach). The accounting policies applicable to lease contracts under IAS 17 described in note 1.1.18.3. "Leases (IAS 17)" apply for comparative periods.

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 IAS 17 standard.

As lessee, Dexia Crédit Local decided to apply the simplified retrospective transition method under which the cumulative effect of the first time application of the standard should be recognised as an adjustment to the opening balance of retained earnings as at 1st January 2019.

In accordance with IFRS 16, Dexia Crédit Local does not apply the new standard to leases of intangible assets (e.g. software) and has made the choice not to apply the new lease accounting model to lease contracts with a term of less than one year (including renewal options) and to contracts for which the underlying asset, when new, is of low unit value (Dexia Crédit Local applies the exemption threshold of EUR 5,000).

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

- The lease liability is measured at the date of first time application by Dexia Crédit Local at the present value of remaining lease payments discounted for each contract using incremental borrowing rate at the transition date. This rate reflects the average term weighted by the lease payment flows (duration) of the lease contract and is based on the remaining term of the contract.

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 that Dexia Crédit Local is reasonably certain to exercise (see note 1.1.18.). Following the IFRS IC decision as at 26 November 2019 related to the determination of the enforceable period to be used for the accounting of leases, the analysis of its potential impacts on the Dexia Crédit Local's financial statements is ongoing. Dexia Crédit Local does not expect this decision to have a material impact on its financial statements.

- Regarding the right-of-use asset, Dexia Crédit Local decided to measure it at the date of first time 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.

The application of IFRS 16 standard led Dexia Crédit Local to make assumptions and estimates in order to determine the value of the right-of-use assets and lease liabilities. These assumptions and estimates are mainly related to the incremental borrowing rate and the lease term.

In addition, Dexia Crédit Local applies transition practical expedients as authorized by IFRS 16, the most important of which are:

- recognition of leases with the remaining term within 12 months from the date of first application as if they were short-term leases;
- instead of performing an impairment test, adjusting the right-of-use assets by any provisions for onerous leases recognised as at 31 December 2018.

Deferred tax will be recorded on the basis of the net amount of taxable and deductible temporary differences. On the date of the initial recognition of the right-of-use asset and the lease liability, no deferred tax is recorded if the asset value is equal to the liability value. The net temporary differences that may result from subsequent changes in the right-of-use asset and lease liability will result in the recognition of deferred tax.

First time application impacts

For Dexia Crédit Local, as lessee, the application of the new standard results in an increase in assets and liabilities related to lease agreements accounted for as operating leases under IAS 17. This impact is due to the lease contracts of office buildings used by the Dexia Crédit Local group entities.

Dexia Crédit Local does not apply IFRS 16 to the IT outsourcing contract as it was not identified as containing a lease: Dexia Crédit Local is not the unique user of servers and other IT hardware and has no means to influence their acquisition and management.

For Dexia Crédit Local, as lessor, the impact is very limited.

The main impacts of the IFRS 16 application as at 1st January 2019 and the transition disclosures are presented in the note «Presentation of the effect of the standard IFRS 16 "Leases" on the balance as at 1st January 2019". The application of the standard did not result in any transitional adjustments to be accounted for in the retained earnings on the first time application date (simplified retrospective approach).

- **Amendment to IAS 19** "Plan Amendment, Curtailment or Settlement". This amendment has no significant impact on Dexia Crédit Local's financial statements due to limited impact of defined benefit plans at Dexia Crédit Local's level.
- **IFRIC 23** "Uncertainty over Income Tax Treatments", which clarifies the application of IAS 12 "Income Taxes" regarding accounting and valuation, where there is uncertainty as to the treatment of income tax. This interpretation has no significant impact on Dexia Crédit Local's financial statements. The updated accounting principles to take into account IFRIC 23 are presented in note 1.1.20.
- **Annual Improvements to IFRS Standards - 2015–2017 cycle** which are a collection of amendments to existing IFRS standards. These amendments do not have a material impact on Dexia Crédit Local's financial statements as they are related to minor adjustments of some IFRS standards
- **Amendments to IAS 28** "Long-term interests in Associates and Joint Ventures". This amendment has no impact on Dexia Crédit Local's financial statements as Dexia Crédit Local has no investments in associates or joint ventures.
- **Amendment to IFRS 9, IAS 39, IFRS 7** "Interest Rate Benchmark Reform". These amendments to standards relating to financial instruments were published by the IASB in September 2019 in the context of the reform on

the replacement of the IBOR benchmarks by alternative benchmark rates and address the issues related to hedge accounting in the period of uncertainty prior to the entry into force of these new rates. The IASB proposal aims at maintaining the existing hedging relationships and assumes that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered. These amendments introduce reliefs mainly regarding the respect of the highly probable requirement for the cash flows hedged, the respect of the "separately identifiable" requirement for the risk hedged, the prospective and retrospective effectiveness testing. Moreover, these amendments require the additional disclosures for the hedging relationships that are directly affected by these uncertainties.

These amendments, adopted by the European Commission on 15 January 2020, are applicable as from 1 January 2020 with the early application permitted. Dexia Crédit Local opted for the early application of this amendment in order to ensure the continuity of its hedging relationships as of 31 December 2019.

Dexia Crédit Local's hedging relationships are mainly indexed on EONIA, EURIBOR and LIBOR rates. For these hedging relationships, the hedged and hedging instruments will be gradually amended to incorporate the new rates (replacement of the interest rate benchmark, insertion of replacement clauses known as «fallback» clauses). Dexia Crédit Local will apply the reliefs introduced by the amendments as long as the uncertainties are not resolved regarding the timing and the amount of cash flows, i.e. until the effective amendment of clauses of the affected financial instruments. The notional amounts of hedging derivatives impacted by the interest rate reform and to which these amendments are applied are presented in note 7.7 "Hedge accounting". Additional information on IBOR reform is presented in paragraph 1.1.1.2.

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 2019

- **Amendment to References to the Conceptual Framework in IFRS Standards.** This amendment is effective as from 1 January 2020 and its impact on the presentation of the Dexia Crédit Local's financial statements is currently being assessed.
- **Amendments to IAS 1 and IAS 8 "Definition of Material"**. This amendment is effective as from 1 January 2020 and Dexia Crédit Local does not expect this amendment to have a significant 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

None

1.1.2.4. 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 has no insurance contracts within the scope of the standard.

1.1.2.5. New definition of default

As stated by the European Banking Authority (EBA) guidelines, the new default definition (defined by article 178 of Regulation (EU) n° 575/2013) will enter into force as from 1 January 2021. The Regulation (EU) 2018/1845 of the European Central Bank (ECB), applicable by 31 December 2020 at the latest, complete these regulatory measures for the past-dues materiality threshold. These new regulations will strengthen consistency and harmonize practices of the European credit institutions for the identification of defaulted exposures.

Dexia Crédit Local applies a unique definition of default for its whole portfolio and will apply this new regulation for the identification of defaulted positions from mid-2020. To be noted that Dexia Crédit Local already follows-up on a quarterly basis as from 2019 the default qualification under the new definition of default along with the current definition.

The performed impact assessment demonstrates a limited impact on (i) default classification and (ii) credit risk parameters and models.

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 2019, 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 16, the main changes in the financial statements are:

- Right-of-use assets are presented within "Tangible fixed assets" for lease contracts of office buildings, within the same line item as that within which the corresponding underlying assets would be presented if they were owned by Dexia Crédit Local.
- Lease liabilities are presented within "Accruals and other liabilities".
- In the income statement, the depreciation charge for the right-of-use asset is presented under "Depreciation, amortisation and impairment of tangible fixed assets and intangible assets" and the interest expense on lease liabilities is presented under "Interest expense".
- In the cash flow statement, cash outflows related to leases liabilities are classified within financing activities for the principal portion and within operating activities for interest portion.

As a result of applying IFRIC 23 as from 1 January 2019 and in accordance with IFRS IC's position (IFRIC Update June 2019), Dexia Crédit Local has reclassified liabilities related to uncertain tax positions from the line "Provisions" to the "Current tax liabilities" line.

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-end or year-end are translated at period-end 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, except for the hedge accounting transactions which are accounted for in accordance with IAS 39.

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), 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

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

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.

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 is 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 a 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 financials assets held with an objective of realising cash flows through the sale of these assets and for which the collection of contractual cash flows is only incidental. Moreover, this is the case for a portfolio of financial assets which fall within the definition of 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

exceptionally changes its business model for managing financial assets. A reclassification only occurs when changes in business model are determined by the senior management of Dexia Crédit Local as a result of external or internal changes that are significant to Dexia Crédit Local's operations and demonstrable to external parties.
The reclassification of assets applies prospectively from the start of the first reporting period following the change in business model. Any previously recognised gains, losses (including impairment gains or losses) and interests are not restated.

At the first application of IFRS 9, and consistently with the Orderly Resolution Plan, approved by the European Commission in 2012, which requires Dexia Crédit Local to manage the residual assets in run-off without any new commercial activity and without accelerated sale, the majority of Dexia Crédit Local's financial assets were held with an objective to collect the cash flows over the life of these assets. Another part of Dexia Crédit Local's financial assets were managed within a collect and sale business model.

The change in Dexia Crédit Local's business model decided by the Board of Directors following the events that took place in 2019 led to the reclassification of portfolios of financial assets from "financial assets at amortised cost" to "financial assets at fair value through profit or loss" for the assets designated to be sold and "financial assets at fair value through other comprehensive income" for the assets for which the decision of disposal has not be taken so far.

The change in business model which took place in the first half of 2019 in the context of the transformation of the DCL New York branch (DCL NY) led to the reclassification of financial assets as at 1 July 2019. The impact of this reclassification is presented in note 2.13. The change in business model which took place in the second half of 2019 in view of the evolving supervisory requirements will lead to the reclassification of financial assets as from 1 January 2020 (see note 1.5. Post-balance-sheet events).

In the case of the reclassification of financial assets into the "fair value through profit or loss" category, Dexia Crédit Local measures their fair value at the reclassification date and any gain or loss arising from a difference between the previous amortised cost of the financial asset (adjusted for fair value changes attributable to the interest risk being hedged) and the fair value is recognised in profit or loss and presented on a separate line in the income statement under "Net gains or losses resulting from the reclassification of financial assets at amortized cost to financial assets at fair value through profit or loss".
In the case of the reclassification of financial assets into the "fair value through other comprehensive income" category, Dexia Crédit Local measures their fair value at the reclassification date and any gain or loss arising from a difference between the previous amortised cost of the financial asset (adjusted for fair value changes attributable to the interest risk being hedged) and fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.
The derivatives designated as hedges of the interest-rate risk relating to financial assets reclassified into the "fair value through profit or loss" category are no longer eligible as hedging instruments. On the reclassification of these assets, the hedging relationships were discontinued and these derivatives were consequently classified as Held for trading derivatives. The interest rate risk of these assets is still economically hedged by these derivatives but the volatility related to other risk components and in particular to credit risk still remains.

1.1.6.2.2. Classification and measurement of investments in equity instruments

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)

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.
When market conditions change (e.g. valuation of floors or the Funding Value Adjustment (FVA)) for the instruments, models are adapted using best market practice. Similarly, some models or their application may change in accordance with better product expertise (CVA, DVA, etc.) or the development of activities (e.g. substantial increase of foreign exchange swaps in Paris due to the scheduled closure of DCL NY in 2020).
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

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 following factors are mainly 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

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 guarantees 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 lifetime average through the cycle PD of the contract at the inception date. 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 to Stage 2. This threshold is included in regular validation processes by governance bodies.

Regulatory accounting and prudential requirements also make it possible to assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument presents a low credit risk on the reporting date. Although credit institutions have the possibility, for assets with "low credit risk", not to measure the significant deterioration in credit risk since origination, and thus to allocate the assets concerned directly in stage 1, the use of this exemption must be limited, and in particular can only apply to securities positions in the portfolio.

The qualitative part of the approach, relying on forward looking counterparty specific indicators, consists of allocating 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 rating of the counterparty at the restructuring date and the maturity of the restructured financial asset.

(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.

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 the Pilar 1 framework Dexia Crédit Local developed internal ratings 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. This approach facilitates 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 year-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 estimations.

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 into 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.

New Definition of Default

See note 1.1.2.5. New Definition of Default.

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 guarantees 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

1.1.6.3.1. Liabilities at amortised cost

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

1.1.6.3.2. Liabilities held for trading

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

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

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

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

For subsequent measurement, 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.

1.1.7. 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.

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 monthly 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 Validation team.

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 Financial Market Risk department based on the information provided by the Front Office and are validated by the Validation team. 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 (for example 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 (for example 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 an overnight rate (OIS) discounting 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 future periods and take into accounts market practices.

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 specified 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 charged for servicing a 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 contract 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 continues to apply 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 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 of assessing fixed-rate exposure and 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 to hedge the 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 a 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 material and equipment.

They are stated at their cost less accumulated depreciation and, if any, 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. In order to determine the useful life of an asset, legal or similar limits on the use of the asset, such as the expiry dates of related leases, are taken into account. Thus, the useful life of an asset may be shorter than its economic life.

The main useful lives are as follows:

- Computer equipment: 3 to 6 years;
- Leasehold improvements, equipment and furniture: 2 to 12 years;
- Vehicles: 2 to 5 years.
- Technical installations, 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".

Dexia Crédit Local presents the right-of-use assets related to its lease contracts under "Tangible fixed assets" within the same line item as that within which the corresponding underlying assets would be presented if they were owned (see note 1.1.18.).

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 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 in 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

As from 1 January 2019, Dexia Crédit Local applies the new IFRS 16 "Leases" to its lease and sublease contracts.
As permitted by the transition requirements of IFRS 16 (simplified retrospective approach), Dexia Crédit Local does not restate the comparative period information. The accounting policies as set out in the section 1.1.18.3. "Leases (IAS 17)" apply to comparative periods.
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 IAS 17. For each contract entered into or amended as from 1 January 2019, Dexia Crédit Local assesses whether it is a lease or contains a lease component based on the definition of IFRS 16, which implies, on the one hand, the identification of an asset and, on the other hand, the control of the use of an identified asset:
- the existence of an identified asset will depend on the absence, for the lessor, of substantive substitution rights for the leased asset;
- control of the use of an identified asset throughout the period of use is conveyed where the customer has both the right to obtain substantially all the economic benefits from that use and the right to direct the asset's use.

In accordance with IFRS 16, Dexia Crédit Local does not apply the new standard to leases of intangible assets (eg software).

1.1.18.1. Dexia Crédit Local is the lessee

Dexia Crédit Local grants leases principally for the rental of equipment or real estate.
A lease, as defined by IFRS 16 "Leases" is recognised on Dexia Crédit Local's balance sheet as a right-of-use asset representing the right to use the underlying asset during the term of the contract and a lease liability representing the obligation to make lease payments.
Dexia Crédit Local has elected not to recognise a right-of-use asset and a lease liability for lease contracts with the term of less than one year (including renewal options) and to leases for which the underlying asset, when new, is of low value (Dexia Crédit Local applies the exemption threshold of EUR 5,000). Lease payments in respect of these contracts are recognised in the income statement as an expense on a straight-line basis over the lease term.

Measurement of the right-of-use asset

The right-of-use asset is initially measured at cost which includes the initial value of the lease liability, plus, any initial direct costs, restoration costs and advance payments less any lease incentives received from the lessor.

Subsequently, the right-of-use asset is depreciated usually on a straight-line basis over the lease term and impairment is recognised if necessary.

Measurement of the lease liability

The lease liability is initially measured at the present value of the lease payments discounted over the lease term.
Lease payments included in the measurement of the lease liability comprise fixed lease payments, variable lease payments that depend on an index or a rate and, if applicable, amounts expected to be payable by the lessee under residual value guarantees, for purchase options or payments of penalties for terminating the lease.
In order to determine the lease term, Dexia Crédit Local considers the non-cancellable period of the contract considering, if applicable, any renewal and termination options, if Dexia Crédit Local is reasonably certain to use an option. In order to assess whether it is reasonably certain to exercise or not to exercise such options, Dexia Crédit Local uses its judgement and considers all relevant facts and circumstances that create an economic incentive for Dexia Crédit Local to exercise or not to exercise these options, including the conditions for exercising these options, substantial changes made to the leased premises, the costs associated with the contract termination, the importance of the leased asset for Dexia Crédit Local's operations as well as the outlook for the future use of the assets. Regarding the French commercial leases (3-6-9 leases), Dexia Crédit Local considers that its contracts are enforceable for 9 years with an initial non-cancellable period of 3 years.
The discount rate is the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. Generally, Dexia Crédit Local uses its incremental borrowing rate as the discount rate. The discount rate is set by currency and by country of Dexia Crédit Local's entities and considering the borrowing terms of the lessee entity. It reflects the average term weighted by the lease payment flows (duration) of the lease contract. For the entities which refinance themselves through the Group, the incremental borrowing rate is set by the Group.
The lease liability is subsequently measured at amortised cost using the effective interest rate method: it is increased by the interest expense on the lease liability and reduced by lease payments made.
The amount of the lease liability may be adjusted later if the lease contract is amended, the lease period is re-estimated, or to account for contractual changes in the rental payments related to the application of indices or rates.
Dexia Crédit Local presents the right-of-use assets under "Tangible fixed assets" within the same line item as that within which the corresponding underlying assets would be presented if they were owned. Lease liabilities are presented within "Accruals and other liabilities".
In the income statement, the depreciation charge for the right-of-use asset is presented under "Depreciation, amortisation and impairment of tangible fixed assets and intangible assets", separately from the interest expense on lease liabilities which is presented under "Interest expense".

In the cash flow statement, cash outflows related to lease liabilities are classified within financing activities for the principal portion and within operating activities for the interest portion.

1.1.18.2. Dexia Crédit Local is the lessor

Dexia Crédit Local grants both operating and finance leases. A lease is classified as a finance lease if the contract transfers substantially all the risks and rewards incidental to ownership of an asset. A contract that is not a finance lease is an operating lease.

The accounting methods applicable to Dexia Crédit Local as a lessor are not different from those that prevailed under IAS 17. However, when Dexia Crédit Local acts as an intermediary lessor, the classification of a sublease contract is made by reference to the right-of-use asset arising from the head lease, and not by reference to the underlying asset.

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.

1.1.18.3. Leases (IAS 17)

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.

Dexia Crédit Local is the lessee

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.

Dexia Crédit Local is the lessor

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 the securities 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. CURRENT AND 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.

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.

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For current and deferred tax, when there is uncertainty as to the tax treatment, Dexia Crédit Local determines whether it is probable that the relevant authority will accept the tax treatment, assuming that a taxation authority will examine the treatment and will have full knowledge of all relevant information when doing so. If it is probable that a taxation authority will not accept the tax treatment, Dexia Crédit Local reflects this uncertainty when determining the value of tax assets and liabilities following one of the below listed methods which provides better predictions of the resolution of the uncertainty:

- the most likely amount or
- the expected value (sum of the probability-weighted amounts in a range of possible outcomes).

Assets and liabilities resulting from uncertainty over tax treatment are presented as current or deferred tax assets and liabilities under "Current tax assets", "Deferred tax assets", "Current tax liabilities" or "Deferred tax liabilities".

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 build 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) and 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.

When a plan amendment, curtailment or settlement occurs, Dexia Crédit Local recognizes and measures any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. The effect of the asset ceiling is then determined after the plan amendment, curtailment or settlement and any change in that effect is recognized.

The current service cost is determined using actuarial assumptions determined at the start of the reporting period. If a plan amendment, curtailment or settlement occurs, current service cost is determined for the remainder of the reporting period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset).

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 contributions and benefit payments. If a plan amendment, curtailment or settlement occurs, net interest for the remainder of the reporting period is determined using the net defined benefit liability (asset) and the discount rate used to remeasure the net defined benefit liability (asset) after the plan amendment, curtailment or settlement.

Qualified external actuaries carry out valuations of these defined benefit obligations. All valuation assumptions and results are reviewed and validated by an external actuary for Dexia Crédit Local that ensures that all calculations are harmonised and calculated in compliance with IAS 19 (as revised in 2011).

1.1.21.2.2. Defined contribution pension plans

Dexia Crédit Local's contributions to defined contribution pension plans are charged to the income statement in the year to which they relate. Under such plans, Dexia Crédit Local's obligations are limited to the contributions that Dexia Crédit Local agrees to pay into the fund on behalf of its employees.

1.1.21.2.3. Retirement termination payments

Retirement termination payments are treated as defined benefit plans.

1.1.21.3. Other long-term benefits

These mainly include 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).

As a result of applying IFRIC 23 as from 1 January 2019 and in accordance with IFRS IC's position (IFRIC Update June 2019), the liabilities related to uncertain tax positions are presented under "Current tax liabilities" and no longer under "Provisions".

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.

1.2. Ownership interests in subsidiaries and other entities

a. Criteria for consolidation and use of the equity method

The Dexia Crédit Local Group applies all rules with regard to the consolidation scope resulting from:

• IFRS 10 on the preparation and presentation of consolidated financial statements;

• IFRS 3 on business combinations and the impact of accounting methods on the consolidated accounts;

• IAS 28 (revised) on Investments in associates and joint ventures;

• IFRS 11 on Joint Arrangements.

The policies laid down by these standards imply that all companies over which the Group exercises exclusive or joint control or notable influence must be consolidated.

Consequently, all companies exclusively or jointly controlled, or over which the group holds a notable influence, are consolidated.

Pursuant to the principle of a true and fair view of the financial statements of the Group, any companies whose contribution to the consolidated financial statements is not material shall not be included in the consolidation scope.

Entities are considered as non-significant when, at consolidated level, the aggregate of their total assets, liabilities, equity and net income does not exceed 1% of the total consolidated balance sheet and net income (respectively EUR 1.19 billion and EUR 4.49 million (average on 3 years) in 2019). As at 31 December 2019, 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 2019

Following the signature of a sale and purchase agreement on 14 December 2018 Dexia and Helaba concluded on 1 May 2019 the sale of Dexia Kommunalbank Deutschland (DKD), Dexia's German banking subsidiary, to Helaba for a total amount of EUR 352 million. All regulatory approvals have been obtained.

Dexia Kommunalbank Deutschland has been presented as a discontinued operation in the consolidated financial statements since the fourth quarter of 2018.

An Extraordinary Shareholders' Meeting of Dexia Crediop was held on November 22, 2019 and approved a capital increase of EUR 120 million consisting of the issuance of 12 billion new ordinary shares without par value, at a subscription price per share of EUR 0.01.

As the minority shareholders of Dexia Crediop, Banco BPM and BPER Banca, did not wish to participate in this capital increase, Dexia Crédit Local subscribed to the entire amount, thus increasing its stake in Dexia Crediop from 70% to 99.57%.

c. Impact of changes in scope on the consolidated income statement

In 2018 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.*

In 2019, the net impact resulting from the sale of DKD is EUR -117 million. This amount includes the net capital loss on disposal as well as the net result of DKD (EUR -9.4 million) and is accounted for in accordance with IFRS 5 as Profit from discontinued operations, net of tax. The result on disposals of EUR 108 million includes a negative impact of EUR -235 million due to the recycling to the income statement of the gain and loss items recognized directly in the income statement, a positive impact of EUR 130 million resulting from the difference between the sale price and Dexia Crédit Local's share of DKD's shareholders' equity, as well as the recognition of the provision for a liability guarantee granted to Helaba.

d. Scope of the Dexia Crédit Local Group as at 31 December 2019

A. Fully consolidated entities

Name	Country	31 December 2018			31 December 2019			Réf
		Method	Control rate	Interest rate	Method	Control rate	Interest rate	
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				S1
SUBSIDIARIES								
Dexia CLF Régions Bail	France	FC	100	100	FC	100	100	
Dexia Crediop	Italy	FC	70	70	FC	99.57	99.57	
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 Kommunalbank Deutschland GmbH	Germany	FC	100	100				S3
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(2)	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*
Réf *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	31 December 2018				31 December 2019			
	Country	Method	Control rate	Interest rate	Method	Control rate	Interest rate	Réf
DCL Evolution	France	not FC	100	100	not FC	100	100	
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	Luxemburg	not EM	20	20				S3
Genebus Lease	France	not FC	100	100	not FC	100	100	
Impax New Energy Investor	Luxemburg	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 (en liquidation)	Italy	not FC	100	100	not FC	100	100	
South European Infrastructure Equity Finance Ltd Partnership	Luxemburg	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	

Réf *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.

(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.

f. Interest in unconsolidated structured entities

This is mainly a securitization 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	135		135
Debt securities	250		250
Loans and advances	50		50
TOTAL	**435**		**435**
Total assets of unconsolidated structured entities	**750**		**750**

The maximum exposure to loss is the fair value of derivatives and the amortised costs of other instruments.

Dexia Crédit Local is considered to be a sponsor of a structured entity when it is primarily involved in the design and establishment of the structured entity and when it transferred assets to the structured entity or provided guarantees regarding the structured entity's performance. Dexia Crédit Local, as a run-off structure does not have any income from sponsored structure in which it does not hold an interest as at 31 December 2019.

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.

As of 31/12/2019, there are no significant minority interests.

Dexia Crediop s.p.a	31/12/2018
Percentage of ownership held by non controlling interests	30%
Principal place of business	Italy
Accumulated non -controlling interests (in EUR million)	280
Profit or loss allocated to non-controlling interests (in EUR million)	(26)
Dividend paid to non-controlling interests	0
Assets (in EUR million)	18,320
Liabilities (in EUR million)	17,387
Equity (in EUR million)	933
Net banking income (in EUR million)	(60)
Profit or loss (in EUR million)	(86)
Total comprehensive income (in EUR million)	(86)

1.3 Significant items included in the income statement

Over the year 2019, Dexia Crédit Local posted a net result Group share of EUR -784 million (EUR -256 million in 2018).

The net banking income was negative, at EUR -631 million (EUR -68 million in 2018).

As in 2018, in addition to the carrying costs of assets, this amount included in particular impacts associated with the valuation of derivatives, as well as disposals gains and provisions for legal risk.

It also included in 2019 a charge of EUR -314 million due to the fair value measurement, as of July 1, 2019, of a EUR 5.3 billion financial assets portfolio of the New York branch, which is reclassified from Amortised Cost to Fair value through profit or loss. This reclassification follows a change in business model decided by the Board of Directors on May 22, 2019, the assets of this portfolio being held for sale, and no longer carried until their maturity. This charge was recognized in *Net gains/(losses) on reclassification of financial assets measured at amortized cost into fair value through profit or loss*.

Net gains and losses on financial instruments at fair value through profit or loss, at EUR -15 million (EUR -144 million in 2018), included an amount of EUR -27 million for accounting volatility elements arising on the evolution of the market parameters which directly impact the value of certain elements, such as derivatives valued on the base of an OIS or a CBS curve, the Credit Value Adjustment (CVA), the Debit Value Adjustment (DVA) and the Funding Value Adjustment (FVA). In 2018, this amount represented EUR -188 million.

In 2019, a gain of EUR +89 million (EUR -73 million in 2018) was booked for the FVA, which represents the funding cost related to non-collateralized derivatives. The CVA, adjustment to the value of derivatives related to the counterparty risk, amounted to EUR +58 million (EUR -35 million in 2018). The novation of four non-collateralized deals with a bank counterparty in the 4th quarter had a positive impact on the CVA.

The variation in market parameters during the year also had a negative impact on hedge accounting inefficiency of EUR -219 million (EUR -92 million in 2018), in particular due to the unfavorable evolution of the BOR/OIS spreads in GBP.

Net gains and losses on financial instruments measured at fair value through other comprehensive income and *Net gains and losses arising on derecognition of financial assets measured at amortised cost* amounted respectively to EUR -119 million (EUR +11 million in 2018) and EUR -208 million (EUR -14 million in 2018), following the disposals in line with the pro-active strategy of reducing the balance sheet. In 2019, the Dexia Crédit Local group sold a EUR 2.3 billion portfolio of US assets with a loss of EUR 80 million, a EUR 1.4 billion portfolio of Japanese securities with a loss of EUR 131 million, and a EUR 532 million exposure on Italian sovereign with a loss of EUR 48 million.

The *net other results*, at EUR +13 million (EUR -4 million in 2018) mainly resulted from the net provision for litigations.

Costs amounted to EUR -358 million (EUR -365 million in 2018). Taxes and regulatory contributions (EUR -62 million) were down compared to 2018 (EUR -92 million), in line with the reduction of the Group's size and the improvement of its risk profile. The General operating expenses were impacted by transformation costs, notably related to the renewal of the IT infrastructure.

The *cost of credit risk* presented a positive amount of EUR +265 million (EUR +128 million in 2018), mainly explained by EUR +93 million reversals of provisions, following the sale of impaired exposures, notably Chicago Board of Education. The cost of credit risk also included the impact of the change in the estimate of the credit risk degradation measure (SICR) for an amount of EUR +150 million, explained in paragraph 1.4.

Income tax is positive at EUR +17 million (EUR -8 million in 2018), which is mainly explained by the resolution of two disputes, resulting in a net impact of EUR +22 million following the conclusions delivered by the Tax Administration.

Dexia Crédit Local sold its stake in Dexia Kommunalbank Deutschland in the second quarter for an amount of EUR 345 million: the net impact resulting from the sale is recognized in the *Result from discontinued operations, net of tax* for an amount of EUR -117 million, of which EUR -9 million (EUR +22 million in 2018) attributable to the result of the entity.

1.4 Other significant events of the year

1.4.1 METHODOLOGICAL EVOLUTION OF THE MEASUREMENT OF A SIGNIFICANT INCREASE OF CREDIT RISK (SICR)

In 2019, the Group implemented decisions relating to its strategic refocusing, which led to profound changes in the composition of the asset portfolio existing at 1 January 2018, the date of first-time adoption of IFRS 9.

In order to better capture the credit risk related to its asset portfolio, which is evolving rapidly and following recommendations made by the European Central Bank within the context of the On-Site Inspection (OSI) on credit risk, Dexia Crédit Local decided to refine its methodology for measuring any significant increase of credit risk (SICR), inspired by that recommended by the European Banking Authority.

This methodological development is also based on a better understanding of the expectations of IFRS 9 regarding the provisioning of credit risks.

This change has been accounted for as a change in accounting estimate and recognised prospectively in 2019. It resulted in a reduction of expected credit losses by EUR 150 million and in particular in a revaluation of the provision on Portugal from Stage 2 to Stage 1. This revaluation is confirmed by the review of the internal rating of Portugal carried out by Dexia Crédit Local in early 2020.

1.4.2 MONITORING THE RISKS ASSOCIATED WITH THE OUTSOURCING OF ACTIVITIES TO COGNIZANT

At the end of 2017, Dexia Crédit Local decided to outsource its IT and back-office services to Cognizant. The management of the IT infrastructure was also transferred to Cognizant in 2018.

Within the framework of the outsourcing agreements for these activities between Dexia Crédit Local and Cognizant, specific monitoring is carried out by Dexia Crédit Local Risk Management for the governance of operations and risks through joint Dexia Crédit Local / Cognizant committees.

The Watchtower team, set up within Dexia Crédit Local, is also responsible for verifying the proper execution and quality of the services provided by Cognizant. Furthermore, Cognizant, as a provider of essential services, has undertaken to implement the three levels of control deployed within the Dexia Crédit Local Group and to deploy certain specific anti-fraud controls relating in particular to the segregation of tasks or the control of IT access.

Dexia Crédit Local has also established an internal control system and an anti-fraud system applicable to outsourced activities. A second-level control plan has been defined and is implemented by the Dexia Crédit Local teams responsible for these functions. In the same way, these activities are integrated into the Dexia Crédit Local audit universe and reviewed at a frequency adapted to the risks involved.

A specific Audit, Control-Compliance and Operational Risk Committee (ACO) meets every quarter and includes Dexia Crédit Local's Chief Risk Officer (CRO) and Chief Operating Officer (COO), the heads of Cognizant, the heads of second-level control functions at Dexia Crédit Local and some heads of operational teams at Cognizant. The role of this committee is to ensure the coordination of internal control functions, to share the results of control plans and to review their implementation, including the review of audit recommendations issued by Dexia Crédit Local, auditors and supervisors.

1.4.3 APPROVAL BY THE EUROPEAN COMMISSION OF THE PROLONGATION OF THE DEXIA'S SENIOR DEBT GUARANTEE

On 27 September 2019, the European Commission confirmed its approval of the prolongation by Belgium and France of the senior debt State guarantee granted to Dexia Crédit Local for a new period of 10 years as from 1 January 2022.

The funding guarantee will retain most of its current characteristics and will therefore remain joint, unconditional, irrevocable and on first demand. However, the following changes have been made to the scheme:

- The new guarantee ceiling will be EUR 75 billion;
- The Luxemburg State will no longer take part in the guarantee mechanism. Its 3% share will be divided between the Belgian and French States in proportion to their current respective shares of 51.41% and 45.59%, i.e. 53% for Belgium and 47% for France.
- The remuneration of the guarantee will remain at 5 basis points per annum on the guaranteed outstanding amounts, payable monthly. This commission may be increased by a conditional deferred commission which will be payable in the event of liquidation of the Group and provided that Dexia Crédit Local no longer has a banking licence on that date. The pricing of this commission will be progressive as of 2022 and will reach an annual rate of 135 basis points on outstanding amounts in 2027. This guarantee remuneration structure allows the full implementation of the principle of burden sharing which underlies the orderly resolution of Dexia, the deferred contingent commission being subordinated to the rights of the preferential, unsecured or subordinated creditors at a "Tier 2" level or higher of Dexia Crédit Local but taking precedence over the hybrid "Tier 1" securities of Dexia Crédit Local (ISIN FR0010251421) and Dexia SA (ISIN XS0273230572).

The Belgian and French States will have to validate the Dexia funding guarantee in accordance with the procedures applicable in each State.

Dexia Crédit Local continues to fund itself under the guarantee scheme currently in force until 31 December 2021 and the debt already issued or to be issued before that date is covered until its contractual maturity by the guarantee agreement of 24 January 2013.

1.5 Post-closing events

1.5.1 UPDATE ON THE EVOLUTION OF THE GROUP'S ASSET PORTFOLIOS

Taking account of the evolution of regulations and supervisors' requirements and the non-renewal of Dexia Crédit Local's specific prudential approach by the European Central Bank, as well as the end of access to Eurosystem funding for entities under resolution as of 1 January 2022, on 19 July 2019 the Board of Directors validated the implementation of a second asset disposal programme. This plan, known as the Remedial Deleveraging Plan (RDP), encompasses a nominal amount of assets of EUR 9.9 billion and complements the EUR 6.5 billion disposal plan agreed on 22 May 2019. In particular, it targets sales which will enable Dexia Crédit Local to reduce its exposure to foreign currency liquidity risk over time while preserving its solvency.

As at 31 December 2019, EUR 3.6 billion of assets, of which EUR 1.8 billion of bonds and EUR 1.8 billion of loans, have already been sold under this plan.

For the assets not sold at that date, the change of management intent constitutes a change of business model which, in application of IFRS 9, will lead, on the first day of the reporting period following the decision, i.e. 1 January 2020, to the reclassification of a portfolio of EUR 6.3 billion in assets from "Amortised cost" to "Fair value through profit or loss" or "Fair value through other comprehensive income".

Furthermore, the Board of Directors confirmed its intention to hold Dexia Crédit Local's residual asset portfolios until maturity. They will therefore continue to be managed in accordance with the business model which aims to collect contractual cash flows over the life of the assets, and classified at "Amortised cost".

The reclassification of assets to market value in relation to the two changes in the business model is likely to lead to volatility in accounting and prudential equity in case of market price variations.

Any rise of credit spreads, in fact increases the unrealised loss recognised as assets classified at fair value through other comprehensive income or profit or loss. These impacts will be recognised in equity or in the income statement, with a corresponding impact on accounting and prudential equity.

Dexia Crédit Local is not exposed to variations of interest rates on these assets as its exposure has been hedged through hedging derivatives.

On the other hand, Dexia Crédit Local is exposed to any substantial downgrading of the ratings of the Group's main counterparties. In particular a downgrade of European sovereigns and local authorities could lead to significant impacts in terms of provisioning, mainly collective provisions, and an increase in total credit risk-weighted assets.

1.5.2 COVID-19 CRISIS

Dexia Crédit Local is closely monitoring the evolution of the situation linked to the spread of the Covid-19 coronavirus throughout the world and particularly in Europe. The Group's Management Board has rapidly activated the operational and strategic crisis units to protect its teams and has implemented all the necessary measures to enable its teams to work remotely. The crisis unit ensures the operational continuity of the company and manages all impacts related to this situation.

As at the date of approval of the Group's financial statements by the Board of Directors, the severity of the pandemic has had a major impact on the financial markets, resulting in a very high volatility of all financial indices, a steepening of interest rate curves and a decline in the value of shares and bonds affecting all categories of borrowers. Containment measures make the execution of market transactions extremely complex. Finally, given the high degree of uncertainty about the development of the crisis, the maturities sought by money market investors have become much shorter.

The rapid progress made towards meeting the acceleration targets of the deleveraging plan, set in 2019 by the Group's governance bodies, has made it possible significantly to reduce the size of its Dexia Crédit Local's commercial portfolios as well as its funding requirements. As at 31 December 2019, the Group had a liquidity buffer of EUR 19.4 billion, enabling it to cope with market tensions, and its LCR ratio amounted to 238%. Prior to the deepening of the crisis, the Group had executed 33% of its long-term guaranteed funding programme, and since then it has financed itself mainly through secured funding (repo).

The current crisis makes the implementation of the asset disposal plan more complex and exposes the Group to fluctuations in the value of assets not sold and reclassified at fair value. On the other hand, the Group could experience a deterioration in the credit quality of its asset portfolio which cannot be assessed at the date of approval of the Group's financial statements by the Board of Directors. At the end of December 2019, Dexia Crédit Local's Total Capital ratio was 27.2%, a level above the minimum of 13.85% imposed for the year 2019 by the European Central Bank (ECB) within the framework of the Supervisory Review and Evaluation Process (SREP).

As part of the fight against the crisis triggered by the Covid-19 epidemic, the ECB, the Banque de France, the National Bank of Belgium and the European Banking Authority (EBA) announced measures aimed at easing prudential requirements and operating costs for credit institutions. Thus, the ECB is exceptionally and temporarily allowing banks to operate with ratio levels which may be below the LCR liquidity ratio, capital conservation buffer requirements (requirement of 2.5% as at 1 January 2020) and requirements under the Pillar 2 guidance (P2G). The High Level Financial Stability Board has also decided to relax the countercyclical buffer in full until further notice.

Including these easing measures, the capital requirement applicable to Dexia Crédit Local is to 11.25% on a consolidated basis.

The asset repurchase programmes (PEPP for the ECB) announced in a coordinated manner by the central banks and the launch of long-term refinancing operations (LTROs) is also intended to support market liquidity.

Finally, the ECB has announced that banks will be given additional time in which to take the corrective actions resulting from previous inspections and may grant additional time in the delivery of certain regulatory postponements to facilitate business continuity. The EBA also decided to postpone the 2020 stress test exercise for all institutions until 2021.Dexia Crédit Local will benefit from these measures in the same way as other credit institutions.

At the date of drawing up the financial statements, Dexia Crédit Local has taken these different elements into account and concluded that they do not call into question the assessment of the going concern (cf. note on going concern).

1.6. Presentation of the effect of IFRS 16 on the balance sheet as at 1st January 2019

The accounting principles applicable for leases applicable as at 1st January 2019 under IFRS 16, as well as the principles of first-time application, options and exemptions adopted are presented in Note 1 respectively in sections 1.1.2.6. Changes in presentation of consolidated financial statements of Dexia and 1.1.2.1 "IASB texts and IFRIC interpretations endorsed by the European Commission and applied as of January 1, 2019".

ASSETS (in EUR million)	**31/12/2018**	**Impact of IFRS 16**	**01/01/2019**
Financial assets at amortised cost - Customer loans and advances	35,143	4	35,147[(1)]
Tangible fixed assets	2	55	57[(2)]

Liabilities (in EUR million)	**31/12/2018**	**Impact of IFRS 16**	**01/01/2019**
Accruals and other liabilities	400	62	462[(3)]
Provisions	226	(3)	223[(4)]

(1) Impact of sub-leasing.
(2) Recognition of a right of use asset (EUR 67.5 million) after reduction related to benefits received, the remaining amount of which was shown in accruals, deferred income and other liabilities (EUR -5.7 million), after impact of sub-leasing (EUR -3.5 million) and taking into account onerous contracts (EUR -3 million).
(3) Lease liability (EUR 67.5 million) and benefits received (EUR -5.7 million).
(4) Onerous contracts (sub-leasing).

The table below presents the reconciliation between the future net minimum lease payments under non-cancellable operating leases as published in Note 2.11.b of the 2018 Annual Report and the amount of the lease liability recorded in the balance sheet at 01/01/2019.

(in EUR million)	
Future net minimum lease payments under non-cancellable operating leases	67
Short-term leases	(7)
Others	8
Lease liability - gross amount	68
Discounting	0
Lease liability at 1st January 2019	67

In order to measure the lease liability recognized at the date of first application, Dexia Crédit Local has discounted the lease payments using its marginal borrowing rate as at 1st January 2019. The weighted average rate is 0.10%.

2. Notes on the assets

(Some amounts may not add up due to rounding differences)

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)	31/12/2018	31/12/2019
Cash and central banks (note 2.2)	9,269	9,211
Financial assets at amortised cost - Interbank loans and advances (note 2.6)	1,242	713
Non current assets held for sale	102	0
TOTAL	**10,614**	**9,924**

b. Of which, restricted cash :

(in EUR million)	31/12/2018	31/12/2019
Mandatory reserves[1]	128	7
of continuing operations	*30*	*7*
of discontinued operations	*98*	*0*
TOTAL	**128**	**7**

(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)	31/12/2018	31/12/2019
Mandatory reserve deposits with central banks	30	7
Other central banks deposits[1]	9,239	9,203
TOTAL	**9,269**	**9,211**
of which included in cash and cash equivalents	*9,269*	*9,211*

(1) On 21 July 2017, the European Central Bank announced the end of the access 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 of 31 December 2017, the Group no longer used 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, 2018, the liquidity reserve amounted to EUR 16.3 billion of which EUR 9.3 billion was in the form of deposits with central banks. As of December 31, 2019, the liquidity reserve is EUR 18.8 billion of which EUR 9.2 billion is in the form of deposits with central banks.

2.3. Financial assets at fair value through profit or loss

(in EUR million)	31/12/2018	31/12/2019
Loans and securities	3,262	3,066
Derivatives (see note 4.1.b)	10,158	11,181
TOTAL	**13,420**	**14,247**

a. Analysis by nature of loans and securities at fair value through profit and loss

(in EUR million)	31/12/2018 Held for trading	31/12/2018 Non-trading financial assets mandatorily at fair value through P/L	31/12/2018 Designated at fair value through P/L	31/12/2018 Total	31/12/2019 Held for trading	31/12/2019 Non-trading financial assets mandatorily at fair value through P/L	31/12/2019 Designated at fair value through P/L	31/12/2019 Total
Loans	0	2,894	0	2,894	0	2,264	0	2,264
Bonds	0	252	0	252	0	740	0	740
Equity instruments	0	116		116	0	62		62
TOTAL	**0**	**3,262**	**0**	**3,262**	**0**	**3,066**	**0**	**3,066**

b. Analysis by maturity
see note 7.5.

c. Analysis of the fair value
see note 7.1.

d. Convertible bonds included in financial assets at fair value through profit or loss (positions higher than EUR 50 million)
Nil.

2.4. Financial assets at fair value through OCI

a. Analysis by nature

(in EUR million)	31/12/2018	31/12/2019
Loans	739	1,153
Bonds	4,089	1,657
Equity instruments designated at FVOCI	39	39
TOTAL ASSETS BEFORE ALLOWANCES	**4,866**	**2,849**
Allowances	(6)	(12)
TOTAL	**4,860**	**2,837**

b. Derecognition of investments in equity instruments
No significant disposal took place in 2018 and in 2019.

c. Equity instruments were designated as at FVOCI in order to avoid volatility in net income.
The following investments have an accounting value of 1 million or more:

(in EUR million)	31/12/2018	31/12/2019
Ecofin Global Utilities	5	7
Istituto per il Credito Sportivo	28	27

d. Analysis by maturity
See note 7.5.

e. Analysis of fair value
See note 7.1.

f. Analysis of quality
See note 2.12.

2.5. Financial assets at amortised cost - Debt securities

a. Analysis by counterparty

(in EUR million)	31/12/2018	31/12/2019
Interbank	1,593	1,421
Customers	43,873	34,648
TOTAL ASSETS BEFORE ALLOWANCES	**45,466**	**36,069**
Allowances	(338)	(57)
TOTAL	**45,128**	**36,012**

b. Analysis by maturity
See note 7.5.

c. Analysis of fair value
See note 7.1.

d. Analysis of quality
See note 2.12.

2.6. Financial assets at amortised cost - Interbank loans and advances

a. Analysis by nature

(in EUR million)	31/12/2018	31/12/2019
Nostri accounts	488	779
Cash collateral	20,311	20,599
Reverse repurchase agreements *(reverse repos)*	2,575	1,502
Other interbank loans and advances	281	188
TOTAL ASSETS BEFORE ALLOWANCES	**23,655**	**23,068**
Allowances	(2)	(2)
TOTAL	**23,654**	**23,066**
of which included in cash and cash equivalents	*1,242*	*713*

b. Analysis by maturity
See note 7.5.

c. Analysis of fair value
See note 7.1.

d. Analysis of quality
See note 2.12.

2.7. Financial assets at amortised cost - Customer loans and advances

a. Analysis by nature

(in EUR million)	31/12/2018	31/12/2019
Cash collateral	4,850	4,867
Loans and advances	30,579	27,123
TOTAL ASSETS BEFORE ALLOWANCES	**35,428**	**31,990**
Allowances	(285)	(219)
TOTAL	**35,143**	**31,771**
of which included in finance leases	*1,116*	*1,070*

b. Analysis by maturity
See note 7.5.

c. Analysis of fair value
See note 7.1.

d. Analysis of quality
See note 2.12.

2.8. Accruals and other assets

Analysis by nature (in EUR million)	31/12/2018	31/12/2019
Deferred expense	4	4
Other accounts receivable	380	151
Other taxes	5	0
TOTAL	**388**	**155**

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 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**

	Land and buildings	Office furniture and other equipment	Total
(in EUR million)	Right-of-use	Own use owner	
Acquisition cost as at 1 January 2019	**0**	**34**	**34**
- First time application of IFRS 16	58	0	58
- Acquisitions	0	1	1
- Transfers and cancellations	0	(18)	(18)
- Translation adjustments	0	1	1
Acquisition cost as at 31 December 2019 (A)	**58**	**18**	**76**
Accumulated depreciation and impairment as at 1 January 2019	**0**	**(32)**	**(32)**
- First time application of IFRS 16	(2)	0	(2)
- Depreciation booked	(10)	(1)	(11)
- Transfers and cancellations	0	18	18
- Translation adjustments	0	(1)	(1)
Accumulated depreciation and impairment as at 31 December 2019 (B)	**(12)**	**(16)**	**(28)**
Net book value as at 31 December 2019 (A)+(B)	**46**	**2**	**48**

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

(in EUR million)	2018 Internally developed software	2018 Other intangible assets[1]	2018 Total	2019 Internally developed software	2019 Other intangible assets[1]	2019 Total
Acquisition cost as at 1st January	**114**	**108**	**222**	**119**	**97**	**216**
- Transfers in disposal groups held for sale	0	(23)	(23)	0	0	0
- Acquisitions	8	11	19	8	3	11
- Transfers and cancellations	(3)	0	(3)	0	(27)	(27)
- Translation adjustments	0	1	1	0	0	0
Acquisition cost as at 31 December (A)	**119**	**97**	**216**	**127**	**73**	**200**
Accumulated depreciation and impairment as at 1st January	**(87)**	**(101)**	**(188)**	**(96)**	**(83)**	**(179)**
- Transfers in disposal groups held for sale	0	23	23	0	0	0
- Booked	(12)	(4)	(16)	(9)	(10)	(19)
- Transfers and cancellations	3	0	3	0	27	27
- Translation adjustments	0	(1)	(1)	0	0	0
Accumulated depreciation and impairment as at 31 December (B)	**(96)**	**(83)**	**(179)**	**(105)**	**(66)**	**(171)**
Net book value as at 31 December (A)+(B)	**23**	**14**	**37**	**22**	**7**	**29**

(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)	**31/12/2018 - continuing operations**
Less than 1 year	46
1 year to 5 years	147
Over 5 years	928
Subtotal	**1,121**
Net investment in finance leases	**1,121**

Additional information (in EUR million)	**31/12/2018 - continuing operations**
Estimated fair value of finance leases	1,097

Gross investment in finance leases (in EUR million)	**31/12/2019**
Less than 1 year	38
1 to 2 years	2
3 to 4 years	138
Over 5 years	884
Subtotal	**1,062**
Net investment in finance leases	**1,062**

Operating leases

Nil.

b. Group as Lesser

Finance leases

Nil.

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Operating leases

Future net minimum lease payments under non-cancellable operating leases (in EUR million)	31/12/2018 - continuing operations
Less than 1 year	17
1 year to 5 years	49
TOTAL	**67**
Future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date	1

Lease and sublease payments recognized as expenses during the year (in EUR million)	31/12/2018 - continuing operations
Minimum lease payments	15
TOTAL	**15**

Future net minimum lease payments under non-cancellable operating leases (in EUR million)	31/12/2019
Less than 1 year	10
1 to 2 years	10
2 to 3 years	10
3 to 4 years	11
4 to 5 years	11
Over 5 years	6
TOTAL	**58**

Amounts recognised in profit and loss (in EUR million)	31/12/2019
Expense relating to short-term leases	12
Amounts recognised in the statement of cash flows	2

c. Carrying amount of right of use assets by class of underlying assets and depreciation

See note 2.9 Tangible fixed assets.

d. Finance lease liabilities included in financial statements

See note 3.5 Accruals and other liabilities.

e. Lease contract not yet started for which the lessee is engaged

As of 31 December 2019, the impact of a new building lease to which Dexia Crédit Local is committed is below EUR 2.5 million. The rights of use will be recognized on January 1, 2020.

2.12. Quality of financial assets

	31/12/2018					
(in EUR million)	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)	31/12/2019 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	31,125	4,899	(4)	(50)	31,121	4,849
Financial assets at amortised cost - Interbank loans and advances	22,966	102	0	(2)	22,966	100
Financial assets at amortised cost - Customer loans and advances	23,665	7,767	(1)	(95)	23,664	7,672
Financial assets at fair value through OCI - Fixed revenue intruments	2,319	489	0	(12)	2,319	477
Other accounts receivable	69	2	0	0	69	2
TOTAL	**80,144**	**13,259**	**(5)**	**(159)**	**80,139**	**13,100**

	31/12/2018			31/12/2019		
(in EUR million)	Gross amount	Specific Impairment	Net amount	Gross amount	Specific Impairment	Net amount
Credit-impaired financial assets (stage 3)						
Financial assets at amortised cost - Debt securities	455	(93)	362	45	(3)	42
Financial assets at amortised cost - Customer loans and advances	742	(186)	556	476	(117)	359
Financial assets at fair value through OCI - fixed revenue intruments	5	(1)	4	2	0	2
Other accounts receivable	10	(10)	0	11	(11)	0
TOTAL	**1,213**	**(291)**	**922**	**534**	**(131)**	**403**

	31/12/2018			31/12/2019		
(in EUR million)	Gross amount	Specific Impairment	Net amount	Gross amount	Specific Impairment	Net amount
Purchased or originated credit impaired						
Financial assets at amortised cost - Customer loans and advances	69	(7)	62	81	(6)	75
TOTAL	**69**	**(7)**	**62**	**81**	**(6)**	**75**

(in EUR million)	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.

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(in EUR million)	31/12/2019 Gross amount	12-month expected credit losses	Lifetime expected credit losses	Specific Impairment	Net amount
Financial assets at amortised cost - Debt securities	36,069	(4)	(50)	(3)	36,012
Financial assets at amortised cost - Interbank loans and advances	23,068	0	(2)	0	23,066
Financial assets at amortised cost - Customer loans and advances	31,990	(1)	(95)	(123)	31,771
Financial assets at fair value through OCI -fixed revenue intruments	2,810	0	(12)	0	2,798
Other accounts receivable	82	0	0	(11)	71
TOTAL	**94,019**	**(5)**	**(159)**	**(137)**	**93,718**

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 at amortised cost to financial assets at fair value through profit or loss and to financial assets through other comprehensive income

As part of the transformation project of the Dexia Crédit Local branch in New York and in order to facilitate the transfer of the balance sheet from the entity to the headquarters in Paris, the Board of Directors of May 22, 2019 decided to sell a portfolio of EUR 6,538 million of financial assets held by the branch, classified at amortized cost on January 1, 2018, when the standard IFRS9 was first applied, because of the choice made by Dexia to manage these assets according to the business model which aims at receiving contractual cash flows over the life of the assets.

The decision to change the management intention of this portfolio constitutes a change in the business model which, in application of the standard IFRS9, results in the reclassification, on the first day of the reporting period following the decision, i.e. July 1, 2019, from "*Amortized cost*" to:

– "*Fair value through profit or loss*": an asset portfolio of EUR 5,295 million (EUR 4,942 million in securities and EUR 353 million in customer loans) for which the sale decision is made.
  The measurement at fair value of these assets on July 1 results in the recognition of an expense of EUR -314 million in "Net Gains (losses) on reclassification of financial assets measured at amortized cost into fair value through profit or loss", including a negative effect of EUR -124 million linked to the recycling, into the income statement, of the cash flow hedge reserve associated with the derivatives hedging the variable rate borrowings which financed part of these assets. The decision to sell the portfolio in the short term called into question the highly probable criteria of the financing, which led to the de-qualification of the hedging relationships. Similarly, derivatives designated as portfolio hedges were de-qualified on July 1, 2019 as part of the compliance with the prospective tests, with a negative impact of EUR -77 million included in the reclassification result,
– "*Fair value through other comprehensive income*": a portfolio of EUR 1,243 million in assets (EUR 830 million in securities and EUR 413 million in customer loans), which Dexia has chosen to no longer manage according to the business model which aims at collecting contractual cash flows over the life of the assets.
  The fair value measurement of these assets on July 1 has a negative effect of EUR -98 million in the change in fair value of debt instruments measured at fair value through other comprehensive income.

Date of reclassification: July 1, 2019 (in EUR million)	**Nominal** Reclassification as of July 1, 2019	**Amount coming from the reclassification recognized in:** Income statement(1)	Change in fair value of debt instruments measured at fair value through other comprehensive income
From Debt securities at amortised cost to Financial assets at fair value through profit or loss	4,942	(280)	
From Debt securities at amortised cost to Financial assets at fair value through other comprehensive income	830		(66)
From Customer loans and advances to Financial assets at fair value through profit or loss	353	(34)	
From Customer loans and advances to Financial assets at fair value through other comprehensive income	413		(32)
TOTAL	**6,538**	**(314)**	**(98)**

(1) Including a charge of EUR -124 million related to the recycling, into the income statement, of the cash flow hedge reserve associated with the derivatives hedging part of the assets held for sale reclassified in fair value through profit or loss, which leads to have an effect of the reclassification on the group's equity of EUR -288 million.

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.

	31/12/2018 – Continuing operations		31/12/2019	
(in EUR million)	Carrying amount of assets	Carrying amount of associated liabilities	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	6,258	5,443
TOTAL	**16,523**	**14,399**	**6,258**	**5,443**
Financial assets at fair value through OCI not derecognised due to following transactions:				
Repurchase agreements	643	574	516	484
TOTAL	**643**	**574**	**516**	**484**
Non-trading financial assets mandatorily at fair value through P/L not derecognised due to following transactions:				
Repurchase agreements	65	48	406	332
TOTAL	**65**	**48**	**406**	**332**
TOTAL	**17,231**	**15,021**	**7,180**	**6,259**

3. Notes on the liabilities

(some amounts may not add up due to rounding differences)

3.1. Financial liabilities at fair value through profit or loss

(in EUR million)	31/12/2018	31/12/2019
Liabilities designated at fair value	1,065	1,145
Derivatives (see note 4.1)	10,807	13,634
TOTAL	**11,872**	**14,779**

a. Analysis by nature of liabilities held for trading

Nil.

b. Analysis by nature of liabilities designated at fair value

(in EUR million)	31/12/2018	31/12/2019
Non subordinated liabillities	1,065	1,145
TOTAL	**1,065**	**1,145**

c. Credit risk on financial liabilities designated at fair value through profit or loss

(in EUR million)	Carrying amount	Amount of change in the fair value attributable to changes in the credit risk		Difference between carrying amount and amount contractually required to be paid at maturity[1]
		For the period	Cumulative	
As at 31 December 2018	1,065	28	(53)	212
As at 31 December 2019	1,145	7	(46)	293

(1) This amount includes the premium discount and change in market value.

d. Analysis by maturity

See note 7.5.

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 (FP) and FSA Global Funding Ltd for liabilities where the hedge accounting requirements are not met or there is a risk that they will not be met, the FVO is used as an alternative in order to reduce volatility in profit or loss.
The following types of liabilities are subject to the FVO classification:
a) Fixed rate liabilities that are highly customised funding contracts tailored to the specific needs of the investor (GIC activities).

Regarding collaterised liabilities by assets, the DVA spread is the average of spreads of collateral given as guarantee. Regarding non secured liabilities, they benefit from both Dexia and Assured monoliner guarantee. In this case, the own credit spread (DVA) is the lower of Dexia DVA spread and the Assured Guaranty spread.
b) FSA Global Funding fixed rate liabilities and the unsecured FP GICs.
The own credit spread is Dexia's DVA spread.

As at 31 December 2019, the cumulative change in fair value attributable to the own credit risk of financial liabilities designated at fair value amounted to EUR -46 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)	31/12/2018	31/12/2019
Demand deposits	0	75
Repurchase agreements	13,568	4,230
Cash collateral	2,333	3,502
Other debts	5,028	4,196
TOTAL	**20,930**	**12,003**

b. Analysis by maturity

See note 7.5.

c. Analysis of fair value

See note 7.1.

3.3. Customer borrowings and deposits

a. Analysis by nature

(in EUR million)	31/12/2018	31/12/2019
Term deposits	296	275
Total customer deposits	**296**	**275**
Repurchase agreements	4,323	3,242
Cash collateral	85	145
Other borrowings	168	190
Total customer borrowings	**4,577**	**3,577**
TOTAL	**4,873**	**3,851**

b. Analysis by maturity

See note 7.5.

c. Analysis of fair value

See note 7.1.

3.4. Debt securities

a. Analysis by nature

(in EUR million)	31/12/2018	31/12/2019
Certificates of deposit	3,144	351
Non-convertible bonds	64,815	62,377
TOTAL(1)	**67,959**	**62,728**

(1) As at 31 December 2019, the total amount issued with the State guarantee was EUR 60.5 billion (EUR 65.5 billion in 2018).

b. Analysis by maturity

See note 7.5.

c. Analysis of fair value

See note 7.1.

3.5. Accruals and other liabilities

(in EUR million)	31/12/2018	31/12/2019
Accrued costs	21	14
Deferred income	9	5
Grants	36	32
Salaries and social charges (payable)	5	4
Other taxes	15	13
Rental debts	0	58
Other accounts payable and other liabilities	314	199
TOTAL	**400**	**325**

3.6. Provisions

a. Analysis by nature

(in EUR million)	31/12/2018	31/12/2019
Litigation claims(1)	196	75
Restructuring	12	27
Defined benefit plans	1	4
Other long-term employee benefits	3	3
Commitments and guarantees given(2)	9	8
Commitments and guarantees given – stage 1	*0*	*0*
Commitments and guarantees given – stage 2	*2*	*2*
Commitments and guarantees given – stage 3	*6*	*6*
Onerous contracts	4	0
Other provisions	2	1
TOTAL	**226**	**118**

(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	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 utilized 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) See the section Litigation in the chapter Risk Management of the Management Report.

(in EUR million)	Litigation claims[1] [2]	Restructuring	Pensions and other employee benefits	Onerous contracts	Other provisions	Total
AS AT 1 JANUARY 2019	**196**	**12**	**4**	**4**	**2**	**218**
Additions	11	23	1	0	0	35
Unused amounts reversed	(55)	(6)	0	(3)	(1)	(66)
Amounts utilized during the year	(20)	(2)	0	(1)	0	(24)
Actuarial gains and losses	0	0	3	0	0	3
Impact application IFRIC 23	(56)	0	0	0	0	(56)
AS AT 31 DECEMBER 2019	**75**	**27**	**7**	**0**	**1**	**110**

(1) Includes a EUR 53 million reversal of the provision relating to the structured credit desensitisation activity in France as a result of the signature of a transaction protocol with 3 counterparties.
(2) See 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 a small number of 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, 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 7 million as at 31 December 2019 and EUR 4 million as at 31 December 2018.

3.7. Subordinated debt

a. Analysis by nature

Convertible subordinated debt

Nil.

Non-convertible subordinated debts

(in EUR million)	31/12/2018	31/12/2019
Perpetual subordinated notes	0	0
Other subordinated notes	126	20
TOTAL	**126**	**20**

b. Reconciliation of liabilities arising from financing activities

(in EUR million)	Cash flows	Non-cash changes				31/12/2018
01/01/2018		Changes arising from obtaining or losing control of subsidiaries	Translation adjustment	Fair value changes	Other changes	
160	(34)	0	0	0	0	126

(in EUR million)	Cash flows	Non-cash changes				31/12/2019
01/01/19		Changes arising from obtaining or losing control of subsidiaries	Translation adjustment	Fair value changes	Other changes	
126	(106)	0	1	0	0	20

c. Analysis by maturity

See note 7.5.

d. Analysis of fair value

See note 7.1.

e. Detail of subordinated debts

Currency	Due	Amount in millions	a) Circumstances for early redemption b) Conditions for subordination c) Conditions for convertibility	Indemnity conditions (in %)
GBP	15/10/58	11.5	**a) Early Redemption in whole** The Notes are redeemable in whole in any of the following circumstances: (i) at the option of the Issuer following the occurrence of a Tax Redemption Event; (ii) at the option of the Issuer if the aggregate Adjusted Principal Balance of the outstanding Notes is less than 10% of the initial Principal Balance of all of the Notes; (iii) following early termination of the Credit Default Swap; (iv) following the early termination of the Cash Collateral Agreement or the Repo Agreement (if any) in circumstances where it is not replaced with an arrangement satisfactory to the Rating Agencies; or following the occurrence of a Note Event of Default and declaration by the Trustee that the Notes are due and repayable, the date designated for the redemption of the Notes upon the occurrence of such circumstances being an Early Redemption Date. **Early Redemption in Part** If the Actual Reference Portfolio Amount is an amount less than the then aggregate Adjusted Principal Balance of the Notes (such shortfall being the "Difference"), then the Issuer on any Note Payment Date, and provided that the Difference is a positive number equal or greater than GBP 1,000,000 (one million) may elect to redeem the Notes, in order of seniority, in part in an amount equal to such difference. b) After enforcement of the security for the Notes under the Security Documents, payments of principal and interest on the Class A Notes will be made in priority to payments of principal and interest on the Class B Notes and the Class C Notes. After enforcement of the security for the Notes under the Security Documents, payments of principal and interest on the Class B Notes will be made in priority to payments of principal and interest on the Class C Notes. c) None	up to 15/01/2022: LIBOR + 0.3% from 15/01/2022 to redemption date: LIBOR + 0.58%
GBP	15/10/58	5.5	**a) Early Redemption in whole** The Notes are redeemable in whole in any of the following circumstances: (i) at the option of the Issuer following the occurrence of a Tax Redemption Event; (ii) at the option of the Issuer if the aggregate Adjusted Principal Balance of the outstanding Notes is less than 10% of the initial Principal Balance of all of the Notes; (iii) following early termination of the Credit Default Swap; (iv) following the early termination of the Cash Collateral Agreement or the Repo Agreement (if any) in circumstances where it is not replaced with an arrangement satisfactory to the Rating Agencies; or following the occurrence of a Note Event of Default and declaration by the Trustee that the Notes are due and repayable, the date designated for the redemption of the Notes upon the occurrence of such circumstances being an Early Redemption Date. **Early Redemption in Part** If the Actual Reference Portfolio Amount is an amount less than the then aggregate Adjusted Principal Balance of the Notes (such shortfall being the "Difference"), then the Issuer on any Note Payment Date, and provided that the Difference is a positive number equal or greater than GBP 1,000,000 (one million) may elect to redeem the Notes, in Order of Seniority, in part in an amount equal to such Difference. b) After enforcement of the security for the Notes under the Security Documents, payments of principal and interest on the Class A Notes will be made in priority to payments of principal and interest on the Class B Notes and the Class C Notes. After enforcement of the security for the Notes under the Security Documents, payments of principal and interest on the Class B Notes will be made in priority to payments of principal and interest on the Class C Notes. c) None	up to 15/01/2022: LIBOR + 0.39% from 15/01/2022 to redemption date: LIBOR + 0.76%

3.8. Information on Equity

a. Capital stock

The share capital of Dexia Crédit Local is represented by 279,213,332 shares with a nominal value of EUR 1.

b. Super-subordinated perpetual note

In 2005, Dexia Crédit Local issued EUR 700 million in super-subordinated perpetual notes. The residual outstanding amounts to EUR 56 million.

4. Other Notes on the balance sheet

(some amounts may not add up due to rounding differences)

4.1. Derivatives

a. Analysis by nature

	31/12/2018 – Continuing operations		31/12/2019	
(in EUR million)	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through profit or loss (see notes 2.3 and 3.1)	**10,158**	**10,807**	**11,181**	**13,634**
Derivatives designated as fair value hedges	983	19,565	1,197	17,846
Derivatives designated as cash flow hedges	206	578	107	563
Derivatives designated as portfolio hedges	73	1,008	74	776
Hedging derivatives	**1,263**	**21,151**	**1,378**	**19,184**
TOTAL DERIVATIVES	**11,421**	**31,958**	**12,559**	**32,818**

b. Detail of derivatives at fair value through profit or loss

	31/12/2018 – Continuing operations			31/12/2019		
(in EUR million)	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Interest rate derivatives	**178,129**	**8,433**	**9,475**	**154,238**	**9,300**	**12,151**
of which: economic hedges	*43,844*	*256*	*825*	*23,644*	*295*	*1,062*
OTC options	75			22	1	1
OTC other	177,512	8,433	9,475	153,927	9,300	12,150
Organized market other	542			290		
Foreign exchange derivatives	**21,065**	**1,493**	**1,208**	**23,517**	**1,684**	**1,372**
of which: economic hedges	*15,978*	*411*	*265*	*18,337*	*651*	*615*
OTC other	21,065	1,493	1,208	23,517	1,684	1,372
Credit derivatives	**3,130**	**232**	**124**	**3,208**	**197**	**111**
of which: economic hedges	*1,813*	*156*	*66*	*2,330*	*129*	*63*
Credit default swap	3,130	232	124	3,208	197	111
TOTAL	**202,324**	**10,158**	**10,807**	**180,963**	**11,181**	**13,634**

c. Detail of derivatives designated as fair value hedges

	31/12/2018 – Continuing operations			31/12/2019		
(in EUR million)	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Interest rate derivatives	**73,522**	**917**	**18,807**	**60,212**	**974**	**15,106**
OTC options	34		4	23		3
OTC other	73,488	917	18,803	60,189	974	15,103
Foreign exchange derivatives	**6,412**	**66**	**758**	**6,058**	**223**	**2,739**
OTC other	6,412	66	758	6,058	223	2,739
TOTAL	**79,934**	**983**	**19,565**	**66,270**	**1,197**	**17,846**

d. Detail of derivatives designated as cash flow hedges

	31/12/2018 – Continuing operations			31/12/2019		
(in EUR million)	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Interest rate derivatives	**1,099**	**15**	**225**	**877**	**13**	**217**
OTC other	1,099	15	225	877	13	217
Foreign exchange derivatives	**873**	**190**	**353**	**1,022**	**94**	**346**
OTC other	873	190	353	1,022	94	346
TOTAL	**1,972**	**206**	**578**	**1,899**	**107**	**563**

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)	31/12/2018 – Continuing operations Notional amount	Assets	Liabilities	31/12/2019 Notional amount	Assets	Liabilities
Portfolio fair value hedges of interest rate risk	8,451	73	1,008	5,635	74	776
TOTAL	**8,451**	**73**	**1,008**	**5,635**	**74**	**776**

4.2. Deferred taxes

a. Analysis by nature

(in EUR million)	31/12/2018 Continuing operations	31/12/2018 Activities held for sale	31/12/2019
Deferred tax assets	1,160	130	1,281
Unrecognised deferred tax assets	(1,140)	(130)	(1,261)
Recognised deferred tax assets[1]	**20**	**0**	**20**
Deferred tax liabilities[1]	**(24)**	**0**	**(32)**
TOTAL	**(4)**	**0**	**(12)**

(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)	2018 Continuing operations	2019
AS AT 1 JANUARY	**6**	**(4)**
Charge/credit recognised in the income statement: "Income tax"	(10)	(2)
Movements directly recognized in shareholders' equity	(2)	(6)
Other movements	1	0
AS AT 31 DECEMBER	**(4)**	**(12)**

c. Deferred taxes

(in EUR million)	31/12/2018 – Continuing operations	31/12/2019
Deferred tax assets	1,160	1,281
Deferred tax liabilities	(24)	(32)
DEFERRED TAXES	**1,136**	**1,249**

Deferred taxes coming from assets (in EUR million)	31/12/2018 – Continuing operations Total	of which, change through profit or loss	31/12/2019 Total	of which, change through profit or loss
Loans (and loan loss provisions)	(1,044)	72	(1,233)	(197)
Securities	(1,183)	54	(1,099)	91
Derivatives	326	257	394	64
Tangible fixed assets and intangible assets	0	0	3	3
Accruals and other assets	8	(16)	0	(8)
TOTAL	**(1,893)**	**367**	**(1,935)**	**(47)**

Deferred taxes coming from liabilities	31/12/2018 – Continuing operations		31/12/2019	
(in EUR million)	Total	of which, change through profit or loss	Total	of which, change through profit or loss
Derivatives	1,582	(332)	1,496	(81)
Borrowings, deposits and debt securities	95	5	196	107
Provisions	53	(9)	91	38
Pensions	4	(1)	4	1
Non-deductible provisions	(9)	0	(9)	0
Accruals and other liabilities	4	20	5	0
TOTAL	**1,729**	**(317)**	**1,783**	**65**

Deferred taxes coming from other elements	31/12/2018 – Continuing operations		31/12/2019	
(in EUR million)	Total	of which, change through profit or loss	Total	of which, change through profit or loss
Tax losses carried forward	1,299	(12)	1,401	97
TOTAL	**1,299**	**(12)**	**1,401**	**97**

TOTAL DEFERRED TAXES	**1,136**		**1,249**	

d. Expiry date of unrecognised deferred tax assets

(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)**

(in EUR million)	31/12/2019		
Nature	**Over 5 years**	**Unlimited maturity**	**Total**
Temporary difference		(216)	(216)
Tax losses carried forward	(202)	(842)	(1,044)
TOTAL	**(202)**	**(1,058)**	**(1,261)**

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 and 16 November 2015 respectively.

This agreement only concerns possible default situations of Dexia, Dexia Crédit Local or Dexia Crediop.

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 Crédit Local includes instruments at their recognized 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

(in EUR million)	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
				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**

b. Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

(in EUR million)	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
				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**

c. Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

(in EUR million)	31/12/2019						
	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
				Impact of Master Netting Agreements and similar agreements	Cash collateral received	Financial instruments received as collateral	
Derivatives	13,680	(1,827)	11,853	(6,926)	(3,867)	0	1,060
Reverse repurchase and similar agreements	1,502	0	1,502	0	(352)	(1,150)	0
TOTAL FINANCIAL ASSETS IN SCOPE OF OFFSETTING DISCLOSURES	**15,182**	**(1,827)**	**13,355**	**(6,926)**	**(4,219)**	**(1,150)**	**1,060**

d. Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

(in EUR million)	31/12/2019						
	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
				Impact of Master Netting Agreements and similar agreements	Cash collateral given	Financial instruments given as collateral	
Derivatives	34,571	(1,827)	32,744	(6,926)	(20,445)	0	5,373
Repurchase and similar agreements	7,335	0	7,335	0	0	(7,335)	0
TOTAL FINANCIAL LIABILITIES IN SCOPE OF OFFSETTING DISCLOSURES	**41,906**	**(1,827)**	**40,079**	**(6,926)**	**(20,445)**	**(7,335)**	**5,373**

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4.4. Related-party transactions

a. Related-party transactions

	Parent company (Dexia)	
(in EUR million)	2018	2019
Borrowings	688	88

Since 31 December 2012, as a result of the capital increase subscribed by the Belgian and French States to the capital increase initiated by Dexia, Dexia Crédit Local's parent company, these shareholders have become the only two shareholders having a significant influence on Dexia Crédit Local Group transactions with these shareholders are described in 4.4 c. below. Persuant to IAS 24 § 25, the detail of loans, borrowings or commitments with the States Shareholders are not subject to a separate disclosure.
Loans to the key management have been granted at market conditions and their amounts are not significant.

b. Compensation of key management personnel(*)

(in EUR million)	2018	2019
Short-term benefits[1]	2.4	3.2
Termination contract benefits	0.3	0.0

(*) Key management personnel are members of the Board of Directors and of the Management Board.
(1) Includes salary, bonus and other benefits

c. Transactions with the Belgian, French and Luxembourg States

Guarantee mechanism in favour of Dexia's financing

2013 guarantee agreement

On 24 January 2013, the French, Belgian and Luxembourg States and Dexia and Dexia Crédit Local ("DCL") entered into a Guarantees Issuance Agreement, and granted an Independent Guarantee pursuant to such Guarantees Issuance Agreement in favour of Dexia Crédit Local (main issuer and main operating entity of the Group) pursuant to the Belgian royal decree of 19 December 2012 amending the royal decree of 18 October 2011 granting a State guarantee for certain loans of Dexia and Dexia Crédit Local SA" (as ratified by the law of 17 June 2013 "portant des dispositions fiscales et financières et des dispositions relatives au développement durable"), the French Enabling Law, as amended by the amending finance law n°2012-1510 of 29 December 2012 and the Luxembourg Enabling Law.

Pursuant to this 2013 Guarantee, the three States guarantee severally, but not jointly, the performance by DCL of their repayment obligations resulting from certain financings provided by qualified, institutional or professional investors (within the meaning of the Guarantee), provided that these obligations arise from certain financings contracted or issued in the form of securities and financial instruments, deposits and borrowings (with a maximum maturity of ten years) between 24 January 2013 and 31 December 2021.
This Guarantee is effective immediately. It replaces the 2011 Temporary Guarantee which is terminated without retroactive effect and without prejudice to any rights arising pursuant to guaranteed obligations entered into or issued prior to the effectiveness of the Guarantee.

The States' several but not joint guarantee pursuant to this Agreement may not exceed a maximum aggregate limit of EUR 85 billion in principal, it being understood that the amounts which are so capped include outstanding guaranteed obligations pursuant to the Guarantee, the 2011 Temporary Guarantee, or any other guarantee granted pursuant to the Guarantees Issuance Agreement but exclude outstanding guaranteed obligations pursuant to the 2008 Guarantee Agreement described below.

The States guarantee the repayment obligations in the following proportion:
(i) 51.41% for the Belgian State (corresponding to a maximum amount of EUR 43.6985 billion),
(ii) 45.59% for the French State (corresponding to a maximum amount of EUR 38.7515 billion),
(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 guaran-teed 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 2019, the total outstanding amount of obligations guaranteed by the States pursuant to the 2013 Guarantee Agreement was EUR 60.5 billion.

In 2019, 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 Crédit Local 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.

On May 1, 2019, Dexia Crédit Local and Helaba concluded the sale of Dexia Kommunalbank Deutschland (DKD), the German banking subsidiary of Dexia Crédit Local. This sale concerns all the shares of Dexia Crédit Local in DKD, representing 100% of the capital.

The assets and liabilities disposed of were as follows:

(in EUR million)	Dexia Israêl 2018	Dexia Kommunalbank Deutschkand 2019
Cash and cash equivalent	712	17
Cash and central banks		111
Financial assets at faire value through profit or loss		660
Hedging derivatives		3,373
Financial assets at fair value through OCI	140	121
Financial assets at amortised cost - Debt securities	136	2,793
Financial assets at amortised cost - Interbank loans and advances		2,536
Financial assets at amortised cost - Customer loans and advances	1,093	14,873
Fair value revaluation of portfolie hedges		314
Current tax assets	12	
Deferred tax assets	2	
Accruals and other assets		8
Tangible fixed assets	6	
Intercompany accounts: net position	**(36)**	(90)
Financial liabilities at fair value through profit or loss		(538)
Hedging derivatives		(3,923)
Interbank borrowings and deposits		(1,582)
Customer borrowings and deposits	(1,262)	(2,078)
Debt securities	(518)	(16,360)
Accruals and other liabilities	(76)	(15)
Provisions	(1)	(7)
Subordinated debt	**(38)**	
NET ASSETS	**171**	**215**
Sale price	81	352
Less: cost of the transaction	(1)	(8)
Less: cash and cash equivalents in the subsidiary sold	(712)	(17)
Net cash inflow on sale	(632)	328

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4.6 Information on disposals groups held for sale and discontinued operations

a. Assets and liabilities included in disposal groups held for sale

On 14 December 2018, Dexia Crédit Local and Helaba 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 a disposal group held for sale and qualified as a discontinued operation.

(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)	**31/12/2018 Dexia Kommunalbank Deutschland**	**31/12/2019 Dexia Kommunalbank Deutschland**
Net banking income	**48**	**(4)**
Operating expenses	(28)	(15)
Cost of credit risk and others	1	10
Net result before tax	**22**	**(9)**
Net result	**22**	**(9)**
Result on disposal		(108)
Income from discontinued operations, net of tax	**22**	**(117)**
Group share	22	(117)

c. Net cash flow

(in EUR million)	**31/12/2018 Dexia Kommunalbank Deutschland**	**31/12/2019 Dexia Kommunalbank Deutschland**
Net cash inflows from operating activities	71	(97)
Net cash inflows from investing activities	0	340
Net cash inflows from financinf activities	**(14)**	**0**
TOTAL	**57**	**243**

4.7. Capital stock

	2018	2019
Number of shares authorized	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	NA	NA

4.8. Exchange rates

The primary exchange rates are presented in the following schedule.

		2018		2019	
		Closing rate(1)	Average rate(2)	Closing rate(1)	Average rate(2)
Australian dollar	AUD	1.6231	1.5827	1.5984	1.6084
Canadian dollar	CAD	1.5613	1.5315	1.4567	1.4813
Swiss Franc	CHF	1.1282	1.1507	1.0862	1.1118
Czech Koruna	CZK	25.7675	25.6815	25.4075	25.6608
Danish Krone	DKK	7.4678	7.4534	7.4718	7.4659
British Pound Sterling	GBP	0.8940	0.8855	0.8486	0.8746
Hong-Kong dollar	HKD	8.9498	9.2392	8.7467	8.7700
Hungarian forint	HUF	320.9350	319.9317	330.4450	325.8375
Shekel	ILS	4.2812	4.2496	3.8831	3.9787
Japenese Yen	JPY	125.6600	129.9363	121.9200	121.9921
Won	KRW	1274.0500	1294.9375	1296.2950	1303.9483
Mexican Peso	MXN	22.4678	22.6531	21.1893	21.6307
Norwegian Krone	NOK	9.9373	9.6258	9.8474	9.8481
New Zealand dollar	NZD	1.7075	1.7079	1.6640	1.6963
Swedish Krona	SEK	10.2205	10.2998	10.4754	10.5876
Singapore dollar	SGD	1.5582	1.5894	1.5096	1.5254
New Turkish Lira	TRY	6.0403	5.7049	6.6771	6.3580
US Dollar	USD	1.1430	1.1787	1.1227	1.1195

(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 Crédit Local group.

4.9. Management of capital

The information regarding management of capital is provided in the chapter Information on capital and liquidity of the Management Report.

5. Notes on the income statement

(some amounts may not add up due to rounding differences)

5.1. Interest income - Interest expense

(in EUR million)	2018	2019
Interest income	**7,864**	**7,350**
a) Interest income on assets not measured at fair value through P/L	**2,112**	**1,778**
Cash and central banks	23	41
Financial assets at amortised cost - Interbank loans and advances	116	34
Financial assets at amortised cost - Customer loans and advances[3]	728	714
Financial assets at amortised cost - Debt securities	1,044	884
Financial assets at fair value through OCI	193	99
Other	7	6
b) Interest income on assets measured at fair value through P/L	**5,382**	**5,225**
Financial assets mandatorily at fair value through P/L	141	155
Derivatives held for trading	3,451	3,566
Hedging derivatives	1,790	1,504
c) Interests received on financial liabilities	**370**	**347**
Interests received on financial liabilities[2]	370	347
Interest expense	**(7,777)**	**(7,331)**
a) Interest expense on liabilities not measured at fair value	**(1,409)**	**(1,311)**
Interbank borrowings and deposits	(469)	(276)
Customer borrowings and deposits	(26)	(69)
Debt securities	(875)	(932)
Subordinated debt	(1)	0
Amounts covered by sovereign guarantees[1]	(33)	(33)
Other	(4)	(1)
b) Interest expense on liabilities measured at fair value	**(6,002)**	**(5,642)**
Liabilities designated at fair value through P/L	(51)	(44)
Derivatives held for trading	(3,351)	(3,405)
Hedging derivatives	(2,601)	(2,193)
c) Interests paid on financial assets	**(366)**	**(378)**
Interests paid on financial assets[2]	(366)	(378)
Net interest income	**87**	**19**

(1) This item includes fees paid to the States for the guarantees they granted to Dexia Crédit Local's debt. See also note 4.4.c Related-party transactions - Transactions with the Belgian, French and Luxembourg States.
(2) In the current environment of very low or negative rates, Dexia Crédit Local decided to present separately positive interests on financial liabilities and negative interests on financial assets.
(3) Of which relating to leases: EUR 30 millions in 2019 (EUR 33 millions in 2018).

5.2. Fees and Commissions

(in EUR million)	2018 Income	2018 Expense	2018 Net	2019 Income	2019 Expense	2019 Net
Lending activity	7	(1)	6	6	(4)	2
Purchase and sale of securities	0	(1)	(1)	0	(1)	(1)
Payment services	0	(3)	(3)	0	(3)	(3)
Services on securities other than custodial services	0	(1)	(1)	0	(1)	(1)
Custodial services	3	0	2	3	0	3
Compensation and settlement-delivery	0	0	0	0	(1)	(1)
Intermediation on bond lending and reverse repo	1	(7)	(6)	0	(7)	(7)
Other	0	(1)	0	1	0	1
TOTAL	**11**	**(15)**	**(4)**	**10**	**(17)**	**(7)**

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)	2018	2019
Dividend income on non trading equity instruments mandatorily at FVTPL	3	8
Net trading income	55	10
Net result of hedge accounting	(87)	(219)
Net result of financial liabilities designated at fair value through profit or loss(1)	33	10
Net result on non-trading financial assets mandatorily at fair value through profit or loss(2)	(37)	50
Funding costs associated with non-collateralised derivatives (FVA)(3)(4)	(73)	89
Change in fair value of derivatives attributable to counterparty risk (credit value adjustment)(3)	(35)	58
Change in fair value of derivatives attributable to own credit risk (debit value adjustment)(3)	5	(8)
Net result of foreign exchange transactions	(7)	(12)
TOTAL	**(144)**	**(15)**
(1) Of which derivatives included in a fair value option strategy	(53)	81
(2) Of which derivatives included in an economic hedge strategy	106	7

(3) FVA, CVA and DVA are booked in the result of trading activities.

(4) In accordance with the provisions of the IFRS 13 and in line with market practice, the Dexia Crédit Local Group developed a methodology for the calculation, from June 2015, of a Funding Valuation Adjustment (FVA) aiming at 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)	2018	2019
Fair value hedges	**(92)**	**(219)**
Fair value changes of the hedged item attributable to the hedged risk	(1,361)	(110)
Fair value changes of the hedging derivatives	1,269	(109)
Cash flow hedges	**5**	**0**
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	5	0
Portfolio hedge	**0**	**0**
Fair value changes of the hedged item	(256)	(225)
Fair value changes of the hedging derivatives	256	225
TOTAL	**(87)**	**(219)**
Discontinuation of cash flow hedge accounting (cash flows still expected to occur) - amounts recorded in interest margin	**3**	**2**

The inefficiency is mainly caused by the volatility of the variable component of hedging derivatives.

Changes in fair value of the hedged items and the hedging derivatives do not appear to be significant in 2019 compared to 2018. This is due to the fact that i) the group has issued longer-term debts and hedged these debts, and ii) the amount of the hedged assets as a result of increased deleveraging. Changes in the fair value of the debts offset those on the assets in 2019. Without offsetting, these changes are of the same magnitude as in 2018.

5.4. Net gains (losses) on financial assets measured at FVOCI

(in EUR million)	2018	2019
Dividend income on equity instruments designated at FVOCI - investments derecognised during the reporting period	2	0
Net gain (loss) on disposals of loans measured at FVOCI	12	9
Net gain (loss) on disposals of bonds measured at FVOCI (1)	(2)	(128)
TOTAL	**11**	**(119)**

(1) 2019 includes a EUR -52 million loss on the sale of a EUR 1.2 billion portfolio of US assets (student loans for the most part), a EUR -30 million loss on the sale of japanese securities (EUR 363 million), as well as a EUR -19 million loss on the sale of a EUR 432 million portfolio of spanish cedulas.

5.5. Net gains (losses) on financial instruments measured at AC

In the second half of 2019, disposals of financial assets at amortised cost were mainly carried out as part of a sales program validated by the board of Directors on July 19, 2019, insofar as, in accordance with IFRS9, the change in accounting classification reflecting the new way of managing the portfolio will not be effective until January 1, 2020, the first day of the reporting period following the decision to change the business model.
The only significant asset at amortised cost sold in 2019 excluding a change of business model is an English ABS hedged by a CDS (NBT) issued by a European bank which has decided to close its headquarters in London as part of the Brexit. Considering the risks associated to the loss of the CDS protection and the proposition to buyback the security issued, the bond and the CDS have been sold.

(in EUR million)	2018	2019
Net gain (loss) on disposals of loans measured at AC(1) (2)	(5)	(4)
Net gain (loss) on disposals of bonds measured at AC(1) (3)	(3)	(185)
Net gain (loss) on redemption of borrowings and deposits	(6)	(19)
TOTAL	**(14)**	**(208)**

(1) Except for gains and losses on impaired securities, which are included in the cost of risk.
(2) In 2019, mainly thanks to two French public sector loan sale programs (EUR 792 million) as well as the disposal of social housing loans (GBP 708 million).
(3) In 2019, the item mainly includes a loss of EUR -101 million on the sale of a Japanese securities portfolio of EUR 1 billion, a loss of EUR -48 million on the sale of an Italian sovereign exposure of EUR 532 million, and a loss of EUR -28 million on the sale of a US assets portfolio of EUR 1.1 billion. A loss of EUR -4 million was also recorded on the disposal of an English ABS hedged by a CDS.
The disposal of these assets has implied the unwinding of the derivatives designated as portfolio hedge, which generated the recognition of losses for EUR -37 million.

5.6. Other income

(in EUR million)	2018	2019
Other banking income	0	1
Litigations(1)	6	53
Other income	11	3
TOTAL	**17**	**57**

(1) Structured loans are regularly analysed based on the progress of cases and on their environment (court decisions, parameters for establishment of support funds, etc.). This gives rise to allocations and reversals, which are disclosed respectively in Note 5.6 Other income and in Note 5.7 Other expenses, as well as, in 2019, the recognition of a reversal of a EUR +53 million following the signing of a protocol of agreement with three counterparties.

5.7. Other expenses

(in EUR million)	2018	2019
Provisions for litigations(1)	(20)	(9)
Other expenses(1)	0	(35)
TOTAL	**(21)**	**(44)**

(1) Structured loans are regularly analyzed based on the progress of cases and on their environment (court decisions, parameters for establishment of support funds, etc.). This gives rise to allocations and reversals, which are disclosed respectively in Note 5.6 Other income and in Note 5.7 Other expenses, as well as, in 2019, the recognition of an expense of a EUR -35 million following the signing of a protocol of agreement with three counterparties.

5.8. Operating expenses

(in EUR million)	2018	2019
Payroll costs	(112)	(112)
General and administrative expenses	(235)	(218)
TOTAL	**(348)**	**(330)**

a. Payroll Costs

(in EUR million)	2018	2019
Compensation and salary expense	(81)	(66)
Social security and insurance expense	(28)	(24)
Employee benefits	(3)	(7)
Restructuring costs	3	(15)
Other	(3)	0
TOTAL	**(112)**	**(112)**

b. Employee information

	2018	2019
(Average full time equivalent)	Fully consolidated	Fully consolidated
Executive staff	18	13
Administrative staff	624	537
Non-administrative and other personnel	1	0
TOTAL	**643**	**550**

	2018					
(Average full time equivalent)	France	Italy	Spain	Other Europe	USA	Total
Executive staff	6	2	1	1	8	18
Administrative staff	432	82	8	19	83	624
Non-administrative and other personnel	0	1	0	0	0	1
TOTAL	**438**	**85**	**9**	**20**	**91**	**643**

	2019					
(Average full time equivalent)	France	Italy	Spain[1]	Other Europe	USA[2]	Total
Executive staff	6	2	0	1	4	13
Administrative staff	407	74	0	17	39	537
TOTAL	**413**	**76**	**0**	**18**	**43**	**550**

(1) Closure of Madrid branch on March 29, 2019.
(2) Following the decision to transform New York branch into a representation office in June 30, 2020, the activities were taken over by Paris headquarters on October 1, 2019, and the staff in USA has been reduced accordingly: it should reach 10 people by the end of 2020.

c. General and administrative expenses

(in EUR million)	2018	2019
Cost of premises	(5)	(5)
Rent expense[1]	(15)	(7)
Fees	(42)	(43)
Marketing, advertising and public relations	(1)	(1)
IT expense	(57)	(79)
Software, research and development	(2)	(2)
Maintenance and repair	(1)	(2)
Insurance (except related to pensions)	(3)	(3)
Other taxes[2]	(90)	(63)
Other general and administrative expenses	(19)	(13)
TOTAL	**(235)**	**(218)**

(1) This amount does not include IT equipment rental expenses, which are included in the "IT expense" line.
(2) This item includes an expense (EUR -50 million in 2019 and EUR -72 million in 2018) corresponding to 85% of the amount of the payment to the annual contribution to the Single Resolution Fund (SRF) set up by the European authorities under the Single Supervisory Mechanism, an amount of EUR -3 million representing the fees for the ECB supervision in 2018 and 2019, and an amount of EUR -2 million, in respect of the contribution, in 2018 and 2019, to support funds for local authorities and hospital sector implemented in France. The item also included in 2018 a tax for systemic risk of EUR -4 million, which is no longer in force in 2019.

5.9. Depreciation, amortisation and impairment of tangible fixed assets and intangible assets

Depreciation and amortisation (in EUR million)	2018	2019
Depreciation of other tangible fixed assets[1]	(1)	(11)
Amortization of intangible assets	(16)	(18)
TOTAL	**(17)**	**(29)**

(1) See note 1.6: the application of the standard IFRS16 "Leases" leads to the recognition in 2019 of a depreciation of EUR -8 million, as the right to use the premises hosting the head office of Dexia Crédit Local.

Impairment

Nil.

Losses or gains

Nil.

5.10. Cost of credit risk

(in EUR million)	2018 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**

(in EUR million)	2019 Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired debt instruments	TOTAL
Financial assets at amortised cost - Customer loans and advances	0	(17)	7	1	(9)
Financial assets at amortised cost - Interbank debt securities		1			1
Financial assets at amortised cost - Customer debt securities(1)	(1)	178	61		238
Financial assets at fair value through OCI - Customer loans and advances			30		30
Financial assets at fair value through OCI - Debt securities	1	4			5
Other accounts receivable			(1)		(1)
Off-balance sheet commitments		1			1
TOTAL	**0**	**167**	**97**	**1**	**265**

(1) Since the first time application of IFRS 9, the Group decided in Q2 2019 to perform a significant deleveraging of assets of its US based activities in the context of the closure of the branch and to perform an additional significant deleveraging plan in Q3 2019 to face new regulatory constraints. Moreover, the Group sold its German subsidiary DKD in Q2 2019, leading to a decrease of EUR 24 billion of its total balance sheet assets. Those decisions led to an important change in the composition of the existing portfolio as of January 1, 2018. In addition, the Group decided to move from the regulatory "advanced method" approach to the "standard method approach" in 2020. Therefore, the SICR methodology has been updated in 2019 to take into account all those changes. The updated methodology also includes the improvements and better knowledge of credit risk gained during the two years since January 1, 2018. The effect of this change of methodology is recorded as a change in accounting estimate and is recognized prospectively by including the impact in profit or loss of the period of the change, i.e. the year 2019.
Should the old methodology been applied, the amount of collective provision stage 2 would have been EUR 316 million before upgrade of rating of Portugal. The current provision, based on the new formula, amounts to EUR 166 million and the main changes are composed of a decrease of provision coming from the Portugal of EUR 164 million and an addition on Italian exposures for EUR 12 million. If the previous method was kept, the provision on Portugal would had been reversed in Q1 2020 due to rerating.

Detail

Stage 1 (in EUR million)	2018 Additions	2018 Recoveries	2018 Total	2019 Additions	2019 Recoveries	2019 Total
Financial assets at amortised cost - Customer loans and advances	(2)	1	(1)	(1)	1	0
Financial assets at amortised cost - Interbank debt securities		2	2			0
Financial assets at amortised cost - Customer debt securities	(2)	3	0	(4)	3	(1)
Financial assets at fair value through OCI - Debt securities	(1)	2	2		1	1
TOTAL	**(5)**	**8**	**3**	**(5)**	**5**	**0**

Stage 2 (in EUR million)	2018 Additions	2018 Recoveries	2018 Total	2019 Additions	2019 Recoveries	2019 Total
Financial assets at amortised cost - Interbank loans and advances		1	1			**0**
Financial assets at amortised cost - Customer loans and advances	(18)	78	60	(70)	53	(17)
Financial assets at amortised cost - Interbank debt securities	(18)	23	5		1	1
Financial assets at amortised cost - Customer debt securities	(168)	257	89	(12)	190	178
Financial assets at fair value through OCI - Customer loans and advances	(2)	3		(2)	2	0
Financial assets at fair value through OCI - Debt securities	(1)	4	**4**	(9)	13	4
Off-balance sheet commitments	(2)	6	5	(1)	2	1
TOTAL	**(209)**	**371**	**162**	**(94)**	**261**	**167**

Stage 3	2018				
(in EUR million)	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)**

Stage 3	2019				
(in EUR million)	Additions	Recoveries	Losses	Collections	Total
Financial assets at amortised cost - Customer loans and advances	(5)	48	(53)	17	7
Financial assets at amortised cost - Customer debt securities	(3)	91	(27)		61
Financial assets at fair value through OCI - Customer loans and advances		30			30
Other accounts receivable	(1)				(1)
TOTAL	**(9)**	**169**	**(80)**	**17**	**97**

5.11. Net gains (losses) on other assets

Nil in 2019.
In 2018, the item amounted to EUR 9 million, of which a gain of EUR 8 million on the sale of Dexia Israel.

5.12. Income tax

Detail of tax expense (in EUR million)	2018	2019
Income tax on current year	3	(4)
Deferred taxes on current year	(5)	0
TAX ON CURRENT YEAR RESULT (A)	**(2)**	**(4)**
Income tax on previous year	(1)	(32)
Deferred taxes on previous year	(5)	(2)
Provision for tax litigations(1)	0	55
OTHER TAX EXPENSE (B)	**(6)**	**21**
TOTAL (A) + (B)	**(8)**	**17**

(1) In 2019, includes the reversal of the provision on the tax audit for the year 2013 in Dexia Crédit Local.

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 provided for a gradual reduction of the corporate tax rate from 2019 to 25% in 2022. However, the law of 24 July 2019 excluded large companies from this reduction, and as a result, in 2019 they continue to be subject to the rate of 33 1/3% for profits above EUR 0.5 million (rate 28% below). The rate will fall to 31% in 2020 for profits above EUR 0.5 million (rate 28% below), then the rate will be reduced, for all profits, to 27.5% in 2021 and finally 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 recognized.
The rate applied to foreign subsidiaries results is the one applicable locally according to the national legislation.
The average tax rate recorded in 2018 is -0.71% and -0.64% in 2019.

The difference with the French rate can be explained as follows:

(in EUR million)	2018	2019
Net income before tax	**(296)**	**(724)**
Tax base	**(296)**	**(724)**
Statutory tax rate	34.43%	34.43%
Theoretical corporate income tax at the standard rate	**102**	**249**
Impact of differences between foreign tax rates and the standard French tax rate	20	(57)
Tax effect of non-deductible expenses	(81)	(100)
Tax effect of non-taxable income	92	62
Impact of items taxed at a reduced rate	(4)	(16)
Other additional taxes or tax savings(1)	(66)	(12)
Tax effect from reassessment of unrecognised deferred tax assets	(65)	(130)
Tax on current year	**(2)**	**(4)**
Effective tax rate	**-0.71%**	**-0.64%**

(1) In 2018, includes an amount of EUR -59 million related to the differences in tax and accounting values arising on intra group assets transfers.

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.

6. Note on off-balance sheet items

6.1. Regular way trade

(in EUR million)	31/12/2018 Continuing operations	31/12/2018 Activities held for sale	31/12/2019
Liabilities to be received	102	27	1,301

6.2. Guarantees

(in EUR million)	31/12/2018 Continuing operations	31/12/2018 Activities held for sale	31/12/2019
Guarantees given to credit institutions	340		308
Guarantees given to customers	504	12	427
Guarantees received from credit institutions	328		105
Guarantees received from customers	3,072		2,707
Guarantees received from the States	65,493		60,530

6.3. Loan commitments

(in EUR million)	31/12/2018 Continuing operations	31/12/2018 Activities held for sale	31/12/2019
Unused lines granted to credit institutions	9		9
Unused lines granted to customers	784		624
Unused lines granted from credit institutions	4,747		5,676
Unused lines granted from customers	778		756

6.4. Other commitments

(in EUR million)	31/12/2018 Continuing operations	31/12/2018 Activities held for sale	31/12/2019
Financial instruments given as collateral and other commitments given	49,576	27	35,384
Financial instruments received as collateral and other commitments received	11,271		8,489

7. Note on risk exposure

(some amounts may not add up due to rounding differences)

7.0. Risk exposure and hedging strategy

We refer to chapter Risk management of Management Report, pages XX to XX

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)	31/12/2018 Continuing operations Carrying amount	Fair value	Unrecognised fair value adjustment	31/12/2018 Activities held for sale 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)			

(in EUR million)	31/12/2019 Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	9,211	9,211	0
Financial assets at amortised cost - Debt securities	36,012	31,902	(4,110)
Financial assets at amortised cost - Interbank loans and advances	23,066	22,988	(78)
Financial assets at amortised cost - Customer loans and advances	31,771	28,408	(3,363)
Interbank borrowings and deposits	12,003	12,013	11
Customer borrowings and deposits	3,851	3,852	2
Debt securities	62,728	63,335	609
Subordinated debt	20	20	0

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.

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*
** Loand 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	24,759
TOTAL	**25,776**	**100,611**	**20,081**	**146,469**

Detail financial assets included in non current assets held for sale

	31/12/2018			
(in EUR million)	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
** Loand 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

	31/12/2018			
(in EUR million)	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

	31/12/2018			
(in EUR million)	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**

Fair value of financial assets

	31/12/2019			
(in EUR million)	Level 1	Level 2	Level 3	Total
Cash and central banks	0	9,211	0	9,211
Financial assets at fair value through profit and loss	0	9,306	1,874	11,181
** Derivatives*	*0*	*9,306*	*1,874*	*11,181*
Financial assets mandatorily at FVTPL	124	1,757	1,185	3,066
** Debt securities*	*93*	*415*	*232*	*740*
** Loans and advances*		*1,328*	*936*	*2,264*
** Equity instruments*	*31*	*14*	*17*	*62*
Hedging derivatives	0	1,235	144	1,378
Financial assets at fair value through OCI	420	1,579	838	2,837
** Debt securities*	*412*	*690*	*546*	*1,648*
** Loand and advances*	*0*	*863*	*287*	*1,150*
** Equity instruments designated at FVOCI*	*8*	*27*	*5*	*39*
Financial assets at amortised cost - Debt securities	21,835	9,209	858	31,902
Financial assets at amortised cost - Interbank loans and advances	0	21,985	1,003	22,988
Financial assets at amortised cost - Customer loans and advances	0	15,072	13,336	28,408
TOTAL	**22,379**	**69,353**	**19,239**	**110,970**

Fair value of financial liabilities

	31/12/2019			
(in EUR million)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit and loss	0	12,544	2,235	14,779
** Financial liabilities designated at fair value*	*0*	*1,145*	*0*	*1,145*
** Trading derivatives*	*0*	*11,399*	*2,235*	*13,634*
Hedging derivatives	0	9,452	9,732	19,184
Interbank borrowings and deposits	0	5,296	6,718	12,013
Customer borrowings and deposits	0	2,620	1,233	3,852
Debt securities	96	47,263	15,976	63,335
Subordinated debt	0	0	20	20
TOTAL	**96**	**77,175**	**35,914**	**113,185**

d. Transfer between level 1 and level 2

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

	31/12/2019	
(in EUR million)	From 1 to 2	From 2 to 1
Financial assets at fair value through OCI - bonds	0	56
TOTAL FINANCIAL ASSETS	**0**	**56**
TOTAL FINANCIAL LIABILITIES	**0**	**0**

The amounts of transfers between levels are the amouts 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)	2018 Opening balance	Transfers in non current assets held for sale	Total gains/ losses in P&L	Unrealised or deferred gains/ losses	Purchase	Sale	Settlement	Transfer into level 3	Transfer out of level 3	Other movements[(1)]	Closing
Non-trading financial asset mandatorily at faire 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
Loand and advances	139	(133)					(2)	5			9
Equity instruments	6						(0)			(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.

(in EUR million)	2019 Opening balance	Total gains/ losses in P&L	Unrealised or deferred gains/ losses	Settlement	Transfer into level 3[(1) (2)]	Transfer out of level 3[(2)]	Other movements[(3)]	Changes in scope of consolidation[(4)]	Closing
Non-trading financial assets mandatorily at fair value throught profit or loss									
Debt securities	*194*	*(37)*		*(1)*			*76*		*232*
Loans and advances	*236*	*(25)*		*(18)*	*572*		*170*		*936*
Equity instruments	*32*	*(11)*		*(3)*					*17*
Trading derivatives	3,772	(1,471)				(319)	(108)		1,874
Hedging derivatives	301	(110)	(20)		11	(37)	(2)		144
Financial assets at fair value through other comprehensive income									
Debt securities	*62*	*(68)*	*3*				*549*		*546*
Loand and advances	*9*	*2*	*(10)*	*(5)*			*292*		*287*
Equity instruments	*5*								*5*
Financial assets at fair value included in non current assets held for sale	428							(428)	0
TOTAL FINANCIAL ASSETS	**5,039**	**(1,720)**	**(28)**	**(28)**	**583**	**(356)**	**978**	**(428)**	**4,041**
Derivatives held for trading	4,431	(1,634)			0	(573)	11		2,235
Hedging derivatives	10,564	379	(421)		434	(1,366)	142		9,732
Financial liabilities at fair value included in disposal groups held for sale	795							(795)	0
TOTAL FINANCIAL LIABILITIES	**15,790**	**(1,255)**	**(421)**	**0**	**434**	**(1,939)**	**152**	**0**	**11,967**

(1) Transfers to level 3 of loans result from changes in the score decision tree parameter: input spreads.
(2) Following the implementation of a new methodology for allocating IFRS levels, a large proportion of derivatives have been reclassified between level 2 and level 3.
(3) Other changes include the transfer of assets from New York to DCL Paris, which were previously recorded at amortized cost. They also include foreign exchange differences for euro-denominated companies and translation adjustments for foreign currency companies. On the asset side, they amount to EUR -107 million recognized in income and EUR +1 million recognized in Gains and losses recognized directly in equity. On the liabilities side, they amount to EUR +152 million recognized in the income statement.
(4) Disposal of Dexia Kommunalbank Deutschland.

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 2019. 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 tables 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)	31/12/2018				
Financial instruments	Non observable 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	345 bps	0 bps	(18.6)	14.8
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				(72.9)	68.0

(in EUR million)	31/12/2019				
Financial instruments	Non observable inputs	Alternative assumptions		Impacts on fair value measurement	
		Worst case	Best case	Worst case (M€)	Best case (M€)
Bonds	Credit spread	+/- one standard deviation		(7.2)	7.2
Loans	Credit spread	280 bps	0 bps	(93.9)	50.7
CDS	Credit spread	+/- one standard deviation		(17.9)	17.0
Derivatives	Interest Rate	+/- one standard deviation		(9.6)	9.6
	Spread of CBS	+/- one standard deviation		(3.6)	3.6
	Inflation	+/- one standard deviation		(1.2)	1.2
Total				(133.5)	89.3

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 valorization, and consist of applying a shock of +/- one standard deviation to the credit spreads. The sensitivity of the bonds' fair value is estimated range from EUR -7.2 million (reflecting a deterioration in the above-mentioned inputs) to EUR +7.2 million (reflecting an improvement in the above-mentioned inputs), while the sensitivity of the CDS' fair value is estimated range from EUR -17.9 million EUR in the adverse scenario to EUR +17 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 -93.9 million for the worst case scenario to EUR +50.7 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 range between EUR -14.4 million for the worst case scenario and EUR +14.4 million for the best case scenario.

g. Difference between transaction princes and modelled values (deferred day one profit)

No amount was booked as deferred DOP (Day One Profit).

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 calculating 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 2019, the credit risk exposure amounts to EUR 87 billion.

a. Concentration by credit risk

Concentration by geographic region

	31/12/2018		31/12/2019
(in EUR million)	Continuing operations	Activities held for sale (DKD)	
France	22,216	54	17,729
Italy	20,974	837	19,414
Great Britain	21,061	53	21,404
Germany	1,909	14,805	1,058
United States	14,842	152	8,866
Spain	7,294	28	5,373
Japon	5,459	0	3,794
Portugal	4,185	235	4,050
Other European countries(2)	696	1,444	986
Canada	1,882	0	1,182
Central and Eastern Europe(3)	899	1,014	905
Switzerland	353	0	146
South and Central America	345	0	164
Scandinavian countries	198	20	81
Southeast Asia	202	0	121
Other(1)	1,809	267	1,704
TOTAL	**104,324**	**18,908**	**86,976**

(1) Includes supranational entities
(2) Includes Belgium, the Netherlands, Luxemburg, Greece and Ireland.
(3) Includes Hungary and Austria

Concentration by sector of the counterparty

	31/12/2018		31/12/2019
(in EUR million)	Continuing operations	Activities held for sale (DKD)	
Central governments	25,329	1,666	25,157
Local public sector(1)	49,138	16,663	37,795
Financial institutions	9,871	557	6,859
Corporates	5,718	0	5,273
Monoline	1,471	0	1,333
ABS/MBS	2,657	9	1,366
Project finance	10,139	14	9,194
TOTAL	**104,324**	**18,908**	**86,976**

(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 31/12/2019, this category includes: EUR 1 million on Hungary, EUR 8,612 million on Italy, EUR 1,006 million on Portugal and EUR 3,580 million on Spain.

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 of 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.

EAD	31/12/2018 – Continuing operations											
	AAA to AA-			A+ to 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.

EAD	31/12/2018 – Activities held for sale											
	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 may have rating grades AAA to AA-, due to the effect of the guarantees.

EAD	31/12/2019											
	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	10,478	54		13,896	469			117				
Local public sector	7,077	853		15,647	5,881	39	142	4,504	121	10	98	2
Financial institutions	273			3,042	125		1					
Corporates				4,982	25	4		24	4			
Monolines				1,068	223	42						
ABS/MBS	1,260			1			40	16		35	11	
Project finance	21	11		5,499	568		61	1,178	332			

(1) The rating takes into account the effects of credit risk mitigations. Exposures (EAD) in stage 2 may have rating grades AAA to AA-, due to the effect of the guarantees.

Purchased or originated credit impaired debt instruments

	31/12/2018 – Continuing operations		31/12/2019	
(in EUR million)	AAA to AA-	Non investment grade	AAA to AA-	Non investment grade
Local public sector	23	62	22	60

b. Maximum credit risk exposure (EAD) by class of financial instruments

(in EUR million)	31/12/2018 Continuing operations			31/12/2018 Activities held for sale (DKD)			31/12/2019		
	Credit risk exposure before financial effect of the collateral	Financial effect of the collateral	Credit risk exposure	Credit risk exposure before financial effect of the collateral	Financial effect of the collateral	Credit risk exposure	Credit risk exposure before financial effect of the collateral	Financial effect of the collateral	Credit risk exposure
a) Assets not subject to impairment									
Non trading financial assets mandatorily at FVTPL	3,161		3,161	531		531	3,017		3,017
Trading derivatives	5,520	1,673	3,847	89	60	29	5,822	2,804	3,018
Hedging derivatives	667	158	509	1,337	1,176	161	746	164	582
b) Assets subject to impairment									
Financial assets at fair value through OCI (excluding variable income securities)	4,825		4,825	122		122	2,811		2,811
Financial assets at amortised cost	88,983	1,027	87,955	18,005		18,005	75,952	1,108	74,844
c) Off balance sheet items									
Loans commitments granted	550		550				437		437
Guarantee commitments granted	22,830	19,352	3,477	59		59	11,999	9,732	2,267
TOTAL	**126,534**	**22,210**	**104,324**	**20,144**	**1,235**	**18,908**	**100,785**	**13,808**	**86,976**

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 2019.
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 Crédit Local 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 2019, total restructured loans related to financial difficulties of debtors was EUR 333 million against EUR 614 million (of which 50 million for DKD) as at 31 december 2018.
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 2019 nor in 2018

e. Reconciliation of loss allowance amount variation

(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 adjust-ments[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	0
- Customer debt securities	3					(0)	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							
Total provisions on commitments and financial guarantees given (Stage 2)	7				(4)		2
Total provisions 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 depreciations 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 depreciation 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.

(in EUR million)	2019 As at 1 Jan.	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)	**5**					**5**
Financial assets at amortised cost	4					5
- Customer debt securities	3			1		4
- Customer loans and advances	1			(1)		1
Financial assets at fair value through other comprehensive income	1					0
- Debt securities	1					0
Allowances for financial assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)[1]	**337**	**(130)**	**(1)**	**(35)**	**(12)**	**159**
Financial assets at amortised cost	333	(131)		(31)	(24)	147
- Interbank debt securities	19			(1)	1	18
- Customer debt securities	223	(153)		(25)	(13)	31
- Interbank loans and advances	2					2
- Customer loans and advances	90	22		(5)	(11)	95
Financial assets at fair value through other comprehensive income	4		(1)	(4)	12	12
- Debt securities	2		(1)	(3)	11	9
- Customer loans and advances	2				1	3
Allowances for credit-impaired debt instruments (Stage 3)[2]	**291**	**(4)**	**(17)**	**(138)**		**130**
Financial assets at amortised cost	280	(4)	(17)	(109)	(30)	120
- Customer debt securities	93			(88)		3
- Customer loans and advances	186	(4)	(17)	(20)	(27)	117
Financial assets at fair value through other comprehensive income	1			(30)	29	0
- Debt securities				(1)		0
- Customer loans and advances	1			(30)	29	0
Other accounts receivable	10			1		11
Allowances for purchased or originated credit impaired debt instruments	**7**			**(1)**		**6**
Financial assets at amortised cost	7			(1)		6
- Customer loans and advances	7			(1)		6
TOTAL ALLOWANCES FOR FINANCIAL ASSETS	**640**	**(135)**	**(19)**	**(174)**	**(12)**	**301**

Provisions on commitments and financial guarantees given						
Total provisions on commitments and financial guarantees given (Stage 2)	2					2
Total provisions on commitments and financial guarantees given (Stage 3)	6					6
TOTAL PROVISIONS ON COMMITMENTS AND FINANCIAL GUARANTEES GIVEN	**9**					**8**

(1) During 2019, the allowances on debt instruments in stage 2 decreased mainly following the reclassification of the Portuguese sovereign exposures from stage 2 to stage 1 after applying the revised methodology for identifying the SICR (Significant increase in credit risk) (EUR +164 million). This evolution is in line with the improvement of the external rating of the Portuguese sovereign. Following this same methodology, some of the exposures to the Italian public sector have been reclassified from stage 1 to stage 2 (EUR -13 million).

(2) The decrease of allowances in stage 3 is mainly due to the write-back of provisions amounting to EUR 93 million following the sale of impaired exposures, in particular the Chicago Board of Education.

(3) These amounts are reported in the income statement.

(4) This category includes the exchange rate differences, as well as the impacts of the reclassification of a EUR 6.54 billion portfolio of financial assets of the Dexia Crédit Local branch in New York from Amortized cost to Fair value through other comprehensive income (EUR 1.24 billion) and to Fair value through profit or loss (EUR 5.29 billion). In the first case, the total impact is nil: the impairments are reclassified from Amortized cost to Fair value through other comprehensive income. In the second case, the total impact is a decrease in impairments of EUR 18 million, including EUR 11 million on loans (outstanding reclassified of EUR 0.35 billion) and EUR 7 million on securities (outstandings reclassified from EUR 4.94 billion).

In 2019, 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	2019
Financial assets at amortised cost	(13)	(13)

g. Reconciliation of gross carrying variation

	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.
(in EUR million)			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		
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*
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: decrease paid cash collateral (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 the portfolio of receivables sold following a call for tenders from investors. These sales related to a total outstanding of EUR 1.1 billion for a total outstanding of 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

(in EUR million)	2019 As at 1 Jan.	Transfers between Stage 1 et Stage 2 To stage 2 from stage 1	 To stage 1 from stage 2	Transfers between Stage 2 et Stage 3 To stage 3 from stage 2	 To stage 2 from stage 3	Transfers between Stage 1 et Stage 3 To stage 3 from stage 1	 To stage 1 from stage 3	Other variations	As at 31 Dec.
Amortised cost	**104,537**							**(13,410)**	**91,127**
- Debt securities[(1)]	45,466							(9,397)	36,069
* *stage 1*	*33,173*	*(15)*	*3,436*					*(5,468)*	*31,125*
* *stage 2*	*11,838*	*15*	*(3,436)*					*(3,518)*	*4,899*
* *stage 3*	*455*							*(410)*	*45*
-Interbank loans and advances	23,660							(593)	23,068
* *stage 1*	*23,462*	*(5)*						*(491)*	*22,966*
* *stage 2*	*199*	*5*						*(102)*	*102*
- Customer loans and advances[(2)]	35,410							(3,420)	31,990
* *stage 1*	*27,695*	*(1,935)*	*430*				*3*	*(2,528)*	*23,665*
* *stage 2*	*6,917*	*1,935*	*(430)*		*7*			*(640)*	*7,789*
* *stage 3*	*798*				*(7)*		*(3)*	*(252)*	*536*
FVOCI	**4,827**							**(2,017)**	**2,810**
-Debt securities[(3)]	4,089							(2,432)	1,657
* *stage 1*	*3,418*							*(1,925)*	*1,493*
* *stage 2*	*666*							*(503)*	*163*
* *stage 3*	*4*							*(4)*	*0*
-Customer loans and advances	739							415	1,154
* *stage 1*	*404*	*(65)*	*65*					*422*	*826*
* *stage 2*	*333*	*65*	*(65)*	*(2)*	*3*			*(9)*	*325*
* *stage 3*	*1*			*2*	*(3)*			*2*	*2*
Other accounts receivable	**81**								**82**
* *stage 1*	*70*							*(1)*	*69*
* *stage 2*	*1*							*1*	*2*
* *stage 3*	*10*							*1*	*11*

(1) Decrease of EUR -9.40 billion, mainly due to the reclassification of a EUR 5.77 billion portfolio of securities at amortized cost of the Dexia Crédit Local branch in New York to the portfolio at fair value through other comprehensive income (EUR 0.83 billion) and to the portfolio at fair value through profit or loss (EUR 4.94 billion), and due to significant sales made in respect of the proactive strategy of reduction of the balance sheet, including in particular the sale of EUR 1.1 billion of American securities in the second quarter, as well as, as part of the asset sales program approved by the Board of Directors on July 19, 2019, mainly EUR 1.1 billion of Japanese securities, EUR 0.53 billion of Italian sovereigns, and EUR 0.25 billion of Portugal securities.

(2) Decrease of EUR -3.42 billion, mainly due to the reclassification of a EUR 0.76 billion portfolio of loans at amortized cost of the Dexia Crédit Local branch in New York to the portfolio at fair value through other comprehensive income (EUR 0.41 billion) and to the portfolio at fair value through profit or loss (EUR 0.35 billion), and due to significant sales made in respect of the proactive strategy of reduction of the balance sheet, including in particular EUR 0.79 billion relating to two French local public sector loans sales programs and GBP 0.71 billion in social housing loans in the UK.

(3) Decrease of EUR -2.43 billion of securities at fair value through other comprehensive income, due in particular to the sale of a portfolio of EUR 1.2 billion in American securities, mainly student loans, as well as the sale of EUR 0.36 billion in Japanese securities, and EUR 0.43 billion in Spanish cedulas.

The transfers are those as at 31 December 2019

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)	31/12/2018 – Continuing operations Fair values of collateral held	 Fair value of collateral sold or repledged	31/12/2019 Fair values of collateral held	 Fair value of collateral sold or repledged
Debt securities	2,483	1,381	1,463	1,463
TOTAL	**2,483**	**1,381**	**1,463**	**1,463**

Collateral is obtained in connection with the repurchase agreement activities.

b. Financial assets pledged as collateral for liabilities or contingent liabilities

(in EUR million)	31/12/2018 – Continuing operations	31/12/2019
Carrying amount of financial assets pledged as collateral for liabilities	67,950	55,217

The amount of EUR 55 billion in 2019 and of EUR 68 billion in 2018 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.
2018: 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). to EUR 20.5 billion (of which EUR 19 billion for DKD accounted for in assets included in disposal groups held for sale).
2019: this amount does not include the amount of the Guaranteed Investment Contracts (GICs) (EUR 1,523 million).

7.4. Sensitivity to interest rate risk and other market risks

a. Market risk

Risk measurement

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

- Value at Risk (VaR) measures the expected potential loss for a 99% confidence interval and for a ten-day holding period. Dexia 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)

Details of the VaR of the trading portfolios are shown in the table below. At the end of 2019, total VaR consumption amounted to EUR 1 million compared to EUR 1.7 million at the end of 2018.

Value at Risk of trading portfolio

(in EUR million) **VaR (10 days, 99%)**	2018	2019
Average	1.5	1.4
End of period	1.7	1.0
Maximum	1.9	2.9
Minimum	1.2	0.8

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

The portfolio classified at fair value through equity consists of securities and loans and has a sensitivity to an increase in credit spreads of EUR -2.1 million as at 31 December 2019 compared to EUR -2.8 million as at 31 December 2018 (EUR -2.7 million excluding activities held for sale - 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 -1.7 million as at 31 December 2019 against EUR -2.3 million as at 31 December 2018 (EUR -1.9 million excluding activities held for sale - DKD). The decrease in the sensitivity of the fair value of the portfolios results from the natural and accelerated reduction by sales of the portfolio.

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 -27.7 million at 31 December 2019 against EUR -14.1 million at 31 December 2018. This is in line with the ALM strategy, which seeks to minimise net interest margin volatility.

(in EUR million)	2018	2019
Sensitivity	(14.1)	(27.7)
Limit	+/-80	+/- 80

7.5 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

	31/12/2018									
(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**	**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	0	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 - Customer 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		264	18	0		(10)	388
Subtotal financial assets used to calculate the gap - continuing operations	*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**
Non current assets held for sale used to calcultate the gap - activities held for sale	*98*	*273*	*471*	*1,846*	*12,151*	*2,112*	*546*	*6,889*	(4)	*24,383*
Non financial assets - activities held for sale	0	0	0	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 underteminder 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		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
Interbank borrowings and deposits[1]	3,351	4,692	2,876	5,614	1,991	2,333	56	16	20,929
Customer borrowings and deposits[1]	256	4,325	0	1	207	85	(1)	0	4,873
Debt securities		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	0	126
Accruals and other liabilities	2	306	17	11	33	31	0		400
Subtotal financial liabilities used to calculate the gap - continuing operations	*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**
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**	**19,721**	**23,711**	**39,693**	**20,654**	**3,945**	**1,966**	**38,333**	**151,632**

(1) Received cash collaterals are declared in undetermined maturity

c. 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.

a. Analysis of assets

(in EUR million)	31/12/2019 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	9,210	0	0	0	0	0	0			9,211
Financial assets at fair value through profit or loss	0	97	179	732	1,613	16	788	10,823		14,247
of which Trading derivatives							*756*	*10,425*		*11,181*
Hedging derivatives							234	1,144		1,378
Financial assets at fair value through OCI	0	364	77	257	2,066	0	15	69	(12)	2,837
Financial assets at amortised cost - Debt securities	1	122	663	2,558	22,338	0	265	10,122	(57)	36,012
Financial assets at amortised cost - Interbank loans and advances[1]	778	501	597	542	40	20,604	(7)	11	(2)	23,066
Financial assets at amortised cost - Customer loans and advances[1]	0	1,081	1,101	4,178	15,150	4,868	108	5,505	(220)	31,771
Fair value revaluation of portfolio hedge								576		576
Accruals and other assets	0	147	0	0	0	19	0	0	(11)	155
Subtotal financial assets used to calculate the gap	*9,990*	*2,312*	*2,617*	*8,267*	*41,207*	*25,506*				
Non-financial assets						111		0	0	111
TOTAL	**9,990**	**2,312**	**2,617**	**8,267**	**41,207**	**25,617**	**1,403**	**28,250**	**(301)**	**119,364**

(1) Paid cash collaterals are declared in undeteminder maturity

b. Analysis of liabilities excluding shareholders' equity

(in EUR million)	31/12/2019 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	0	36	805	0	661	13,274	14,779
of which Trading derivatives							*653*	*12,981*	*13,634*
Hedging derivatives							296	18,888	19,184
Interbank borrowings and deposits[1]	77	1,489	3,225	2,023	1,637	3,501	29	21	12,003
Customer borrowings and deposits[1]	230	2,671	572	0	233	145	(1)	0	3,851
Debt securities	0	12,085	12,445	30,047	6,979		329	843	62,728
Fair value revaluation of portfolio hedge								7	7
Subordinated debts	0	0	0	0	20	0	0	0	20
Accruals and other liabilities	1	272	14	10	28		0		325
Subtotal financial liabilities used to calculate the gap	*308*	*16,521*	*16,256*	*32,117*	*9,703*	*3,646*			
Non-financial liabilities						152			152
TOTAL	**308**	**16,521**	**16,256**	**32,117**	**9,703**	**3,798**	**1,314**	**33,034**	**113,049**

(1) Received cash collaterals are declared in undetermined maturity

c. Net liquidity gap as at 31/12/2019

(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 31/12/2019	**9,682**	**(14,208)**	**(13,639)**	**(23,849)**	**31,504**	**21,860**

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".

7.6. Currency risk

We also refer to Management Report, chapter Risk Management. Dexia Crédit Local's foreign exchange risk exposure is generated by:

- Investments and divestments in subsidiaries and branches denominated in currencies other than the euro,
- Retained earnings of entities in currencies other than the euro,
- Imbalances between assets, liabilities and off-balance sheet items denominated in currencies other than the euro.

A large proportion of balance sheet items denominated in currencies other than the euro are micro-hedged from the outset by cross-currency swap (CIRS) derivatives. The residual exposure to foreign exchange risk is monitored by measuring the unfavorable evolution of the P&L associated with a change in exchange rates.

Current foreign exchange risk management focuses on the risk resulting from the translation of the cumulative P&L and the net interest margin in foreign currencies. The main objective of ALM is to hedge an economic foreign exchange risk as soon as it is known. Under the current risk framework, limits on local currency positions are below an equivalent of EUR 1 million on each currency. In addition, there are no directional currency positions in the trading portfolio.

Even if economic foreign exchange positions are close to zero, capital ratios remain sensitive to exchange rate movements. In particular, a large proportion of the Group's risk-weighted assets are linked to non-EUR denominated assets (GBP 33%, USD 19%, JPY 8%). Thus, if the euro depreciates against other currencies, risk-weighted assets denominated in a currency other than the euro will weigh more heavily in relative terms according to the group's capital. For example, a 1% fall in the EUR against other currencies would lead to an increase in the prudential capital requirement of EUR 30 million, without any economic impact.

Classification by original currency	31/12/2018						
(in EUR million)	EUR	GBP	Other EU currencies	U.S. dollars	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**

Classification by original currency	31/12/2019						
(in EUR million)	EUR	GBP	Other EU currencies	U.S. dollars	JPY	Other currencies	Total
Total assets	62,667	24,041		29,186	2,180	1,291	119,364
Total liabilities and shareholders' equity	62,555	24,063		29,041	2,516	1,188	119,364
NET BALANCE SHEET POSITION	**111**	**(22)**	**0**	**144**	**(336)**	**103**	**0**

7.7. 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 for specified financial assets or financial liabilities ("micro hedge") or for 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 Profit or Loss (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 recognized 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.

(iv) IBOR reform

Information on the reform for the replacement of the IBOR benchmark indices by alternative benchmark indices and on the impact of this reform on hedge accounting is presented in notes 1.1.1.2. *Accounting estimates and judgments* and *1.1.2.1. IASB texts and IFRIC interpretations endorsed by the European Commission and applied as from 1 January 2019.*

a. Hedging derivatives by risk category for each type of hedge

1. Detail of derivatives designated as fair value hedges

	31/12/2018 - continuing operations				31/12/2019			
	Notional amount	Assets - carrying amount	Liabilities - carrying amount	Change in fair value used for calculating hedge ineffectiveness	Notional amount	Assets - carrying amount	Liabilities - carrying amount	Change in fair value used for calculating hedge ineffectiveness
(in EUR million)		Hedging derivatives	Hedging derivatives			Hedging derivatives	Hedging derivatives	
Interest rate derivatives	**73,522**	**917**	**18,808**	**1,313**	**60,211**	**974**	**15,106**	**(109)**
OTC options	34		4	1	22		3	1
OTC other	73,488	917	18,803	1,313	60,189	974	15,103	(110)
Rate and foreign exchange derivatives(*)	**6,412**	**66**	**758**	**(44)**	**6,058**	**223**	**2,739**	**0**
OTC other	6,412	66	758	(44)	6,058	223	2,739	0
TOTAL	**79,934**	**983**	**19,565**	**1,269**	**66,269**	**1,197**	**17,845**	**(109)**

(*) The "rate and foreign exchange derivatives" line includes cross currency interest rate swaps designated as hedges of both interest rate risk in a fair value hedging relationship and foreign exchange risk in a cash flow hedging relationship. The carrying amount of these derivatives relating to the foreign exchange risk component is presented in the table " Details of instruments designated as cash flow hedges".

2. Detail of derivatives designated as cash flow hedges

	31/12/2018 - continuing operations				31/12/2019			
	Notional amount	Assets - carrying amount	Liabilities - carrying amount	Change in fair value used for calculating hedge ineffectiveness	Notional amount	Assets - carrying amount	Liabilities - carrying amount	Change in fair value used for calculating hedge ineffectiveness
(in EUR million)		Hedging derivatives	Hedging derivatives			Hedging derivatives	Hedging derivatives	
Interest rate derivatives	**1,099**	**15**	**225**	**51**	**877**	**13**	**217**	**128**
OTC other	1,099	15	225	51	877	13	217	128
Foreign exchange derivatives(*)	**873**	**190**	**353**	**68**	**1,022**	**94**	**346**	**17**
OTC other	873	190	353	68	1,022	94	346	17
TOTAL	**1,972**	**206**	**578**	**118**	**1,899**	**107**	**563**	**145**

(*) The line "Foreign exchange derivatives" includes the carrying amount relating to the foreign exchange risk component of cross currency interest rate swaps. These derivatives are designated as hedges of both the interest rate risk in a fair value hedge relationship and the foreign exchange risk in a cash flow hedge relationship and are also presented on the line "Rate and foreign exchange derivatives" in the table "Details of derivatives designated as fair values hedges.

(in EUR million)	31/12/2018	31/12/2019
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	Nil

3. Detail of derivatives designated in portfolio hedge of interest rate risk

	31/12/2018			31/12/2019		
	Notional amount	Assets - carrying amount	Liabilities - carrying amount	Notional amount	Assets - carrying amount	Liabilities - carrying amount
(in EUR million)		Hedging derivatives	Hedging derivatives		Hedging derivatives	Hedging derivatives
Portfolio fair value hedges of interest rate risk	8,451	73	1,008	5,635	75	776
TOTAL	**8,451**	**73**	**1,008**	**5,635**	**75**	**776**

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

1. Fair value hedges

(in EUR million)	31/12/2018 - continuing operations 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	31/12/2019 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	1,164	137	(353)	0
Interest rate risk	*2,768*	*451*	*(509)*	*517*	*1,164*	*137*	*(353)*	
Financial assets at amortised cost - Debt securities	35,640	10,908	(280)	23	30,492	10,122	(206)	0
Interest rate risk	*35,623*	*10,906*	*(280)*	*23*	*30,473*	*10,119*	*(207)*	
Foreign exchange risk	*18*	*2*			*19*	*3*	*1*	
Financial assets at amortised cost - Interbank loans and advances	111	13	(3)		95	11	(2)	0
Interest rate risk	*111*	*13*	*(3)*		*95*	*11*	*(2)*	
Financial assets at amortised cost - Customer loans and advances	12,162	4,382	(590)		12,856	5,505	753	0
Interest rate risk	*12,162*	*4,382*	*(590)*		*12,856*	*5,505*	*753*	
Interbank borrowings and deposits	0	0	0		233	21	(139)	0
Interest rate risk	*0*	*0*	*0*		*233*	*21*	*(139)*	
Debt securities	44,149	380	(21)		42,166	843	441	0
Interest rate risk	*44,149*	*380*	*(21)*		*42,166*	*843*	*441*	
TOTAL (FINANCIAL ASSETS LESS FINANCIAL LIABILITIES)	**6,532**	**15,374**	**(1,361)**	**540**	**2,208**	**14,911**	**(110)**	**0**

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2. Cash flow hedges

	31/12/2018 - continuing operations			31/12/2019		
(in 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	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)		(15)	12	4
Foreign exchange risk	*(43)*	*(2)*		*(15)*	*12*	*4*
Financial assets at amortised cost - Debt securities	(4)	(140)		39	(179)	0
Foreign exchange risk	*(4)*	*(140)*		*39*	*(179)*	
Financial assets at amortised cost - Customer loans and advances	(3)	(112)	49	(49)	(65)	0
Interest rate risk	*6*	*59*		*4*	*54*	
Foreign exchange risk	*(9)*	*(171)*	*49*	*(53)*	*(119)*	
Interbank borrowings and deposits	28	(150)	0	(47)	(198)	41
Interest rate risk	*19*	*(171)*		*(37)*	*(208)*	*41*
Foreign exchange risk	*9*	*21*		*(10)*	*10*	
Customer borrowings and deposits	36	(166)	0	169	0	0
Interest rate risk	*36*	*(166)*		*169*		
TOTAL (FINANCIAL ASSETS LESS FINANCIAL LIABILITIES)	**(113)**			**(147)**		
TOTAL		**(572)**	**49**		**(429)**	**45**

3. Net investment hedge

Nil.

4. Portfolio fair value hedge of interest rate risk

	31/12/2018 - continuing operations	31/12/2019
(in EUR million)	Carrying amount of the hedged item	Carrying amount of the hedged item
Financial assets at fair value through OCI	590	178
Financial assets at amortised cost - Customer loans and advances	5,464	4,026
Debt securities	409	385

The amounts as at 31/12/2018 have been revised

c. Profile of timing of the nominal amount of the hedging instrument and average prices or rates

1. Derivatives designated as fair value hedges

	31/12/2018 - continuing operations				31/12/2019			
	Maturity				Maturity			
(in EUR million)	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	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	5,582	4,013	27,679	22,937
* Average fixed interest rate	1.97 %	0.65 %	1.44 %	3.47 %	1.19 %	2.55 %	1.23 %	3.12 %
Foreign exchange derivatives								
* Notional amount (in EUR million)	25		1,446	4,941	31		2,763	3,263
* Average EUR-USD exchange rate			1.2250	1.2591			1.1603	1.2398
* Average EUR-JPY exchange rate			108.7784	160.9227				
* Average USD-JPY exchange rate			110.6120	115.5224	105.9996		117.6471	116.9825
* Average USD-GBP exchange rate				0.5600				0.5599
* Average fixed interest rate	1.29 %		2.64 %	3.29 %	2.50 %		2.11 %	3.27 %

2. Derivatives designated as cash flow hedges

(in EUR million)	31/12/2018 - continuing operations Maturity 3 months to 1 year	31/12/2018 - continuing operations Maturity 1 to 5 years	31/12/2018 - continuing operations Maturity Over 5 years	31/12/2019 Maturity 1 to 5 years	31/12/2019 Maturity Over 5 years
Interest rate derivatives					
* Notional amount (in EUR million)	84	145	870	171	706
* Average fixed interest rate	3.72 %	1.78 %	3.93 %	2.91 %	3.82 %
Foreign exchange derivatives					
* Notional amount (in EUR million)	726		146	873	149
* Average EUR-GBP exchange rate	0.8006			0.8596	
* Average EUR-USD exchange rate			0.5079		0.5079

d. Impact of hedge accounting in the statement of comprehensive income

1. Fair value hedges

(in EUR million)	31/12/2018 Hedge ineffectiveness recognised in P/L Net gains (losses) on financial instruments at fair value through profit or loss of the consolidated statement of income	31/12/2018 Hedge ineffectiveness recognised in OCI Gains and losses directly recognised in equity of the balance shett	31/12/2019 Hedge ineffectiveness recognised in P/L Net gains (losses) on financial instruments at fair value through profit or loss of the consolidated statement of income	31/12/2019 Hedge ineffectiveness recognised in OCI Gains and losses directly recognised in equity of the balance shett
Interest rate risk	(48)		(220)	
Foreign exchange risk	(44)		1	
TOTAL	**(92)**		**(219)**	

2. Cash flow hedges

(in EUR million)	31/12/2018 Change in the value of the hedging instrument recognised in OCI Gains and losses directly recognised in equity of the balance shett	31/12/2018 Hedge ineffectiveness recognised in profit or loss Net gains (losses) on financial instruments at fair value through profit or loss of the consolidated statement of income	31/12/2018 Amount reclassified from the cash flow hedge reserve to profit or loss - discontinued hedge Net gains (losses) on financial instruments at fair value through profit or loss of the consolidated statement of income	31/12/2019 Change in the value of the hedging instrument recognised in OCI Gains and losses directly recognised in equity of the balance shett	31/12/2019 Hedge ineffectiveness recognised in profit or loss Net gains (losses) on financial instruments at fair value through profit or loss of the consolidated statement of income	31/12/2019 Amount reclassified from the cash flow hedge reserve to profit or loss - discontinued hedge Net gains (losses) on financial instruments at fair value through profit or loss of the consolidated statement of income
Interest rate risk	48		3	128		
Foreign exchange risk	65		3	17		
TOTAL	**113**		**5**	**145**		

3. Net investment hedge

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. This analytical presentation of performance is in line with Dexia Crédit Local's structure no longer consisting of homogenous operating units with their own decision-taking power in terms of resource allocation (funding and operating expenses). Consequently, operating charges must be considered globally and by geographic entity to ensure optimum management.

b. Geographic reporting

(in EUR million)	France	Spain	Ireland	Italy	United States	Total
As at 31 December 2018						
NET BANKING INCOME	**(88)**	**17**	**123**	**(60)**	**(60)**	**(68)**
As at 31 December 2019						
NET BANKING INCOME(1)	**(129)**	**0**	**(42)**	**(96)**	**(364)**	**(631)**

(1) See note 1.3. "Significant items included in the statement of income".

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, after the closure of the Madrid branch of Dexia Crédit local on March 29, 2019, there is no longer any net banking income represented in Spain.

Statutory auditors' report on the consolidated financial statements

For the year ended December 31st, 2019

To the shareholders' meeting of Dexia Crédit Local,

Opinion

In compliance with the assignment entrusted to us by your annual general meeting, we conducted our audit of Dexia Crédit Local consolidated financial statements, for the year ended December 31, 2019. These accounts were approved by the Board of Directors on March 31, 2020 based on the information available at that date in the context of an evolving health crisis linked to Covid-19.
In our opinion, the consolidated financial statements give a true and fair view of the results of its operations and of the financial position of the group as at December 31, 2019 for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.
The following audit opinion is consistent with our 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 audit opinion.
Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2019 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in the French Code of ethics ("Code de déontologie") for statutory auditors.

Observation

Without qualifying the opinion expressed above, we draw your attention to notes 1.1.2.1, 1.1.2.6, 1.1.18 and 1.6 to the financial statements, which describe the effects of changes in presentation and the first-time application of IFRS 16 "Leases" and IFRIC 23 "Uncertainties about tax treatment" on the consolidated financial statements at December 31, 2019.

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 bring to your attention the key points of the audit relating to the risks of material misstatement which, in our professional judgment, were the most significant for the audit of the consolidated financial statements for the year, as well as our responses to these 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 these matters.

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 ability to continue as a going concern is based on the revised orderly resolution plan of the Dexia Group, approved by the European Commission on December 28, 2012. This plan, further reassessed by the Board of Directors of Dexia Crédit Local of December 19, 2019, is based, among others, on the following assumptions: – the macro-economic assumptions underlying the business plan are revised as part of the biannual 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 incorporates observable market data as at June 30, 2019, as well as the non-renewal, as from January 1, 2019, of the specific approach deployed by the European Central Bank for the supervision of the Dexia Group; – the business plan assumes the preservation of the banking license of the various entities composing the Group and of the credit rating of Dexia Crédit Local; – the continuation of the resolution plan assumes that Dexia Group maintains a sound funding capacity, which relies in particular on the appetite of investors for the debt guaranteed by the Belgian, French and Luxembourg States as well as on Dexia Crédit Local capacity to raise secured borrowings; – the renewal of the guarantee by the Belgian and French States, as from the January 1, 2022, in accordance with the approval of the European Commission, dated September 27, 2019; – 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 significantly the business plan; The assessment of all the elements supporting the business plan must also be made in the particular context of the current health crisis linked to the spread of the Covid-19 coronavirus throughout the world and particularly in Europe, as mentioned in the note 1.5.2. to the consolidated financial statements In summary, there are still uncertainties, as of today, regarding the realization of the business plan supporting the continuity of Dexia Crédit Local operations over the duration of the resolution. However, at this stage, these uncertainties do not call into question the fundamentals of the resolution, which justifies the preparation of the consolidated financial statements on a going concern basis, in accordance with IAS 1. Considering all of the elements presented above, we consider the assessment of the application of the going concern assumption used for the preparation of the consolidated financial statements as of December 31, 2019 as a key audit matter.	We have examined the latest assessment made by the Executive Committee and the Board of Directors of the Dexia Group of Dexia Crédit Local ability to continue as a going concern over a period of twelve months starting at the closing date of the financial year, as prescribed by IAS 1 – "Presentation of Financial Statements", as well as the elements used to justify the assessment and the underlying documentation: We have applied, amongst other, the following diligences prescribed by IAS 570 "Going Concern": – through discussion with management and based on the documentation made available to us, we have assessed the elements on which the 24 months-term liquidity projections were based by Dexia; – we have considered the main regulatory ratios as of December 31, 2019 (Liquidity Coverage Ratio, Common Equity Tier 1) in light of the requirements applicable at that date to the Dexia Group. – we have inquired of the Executive Committee and Board of Directors about the latest underlying assumptions to the revised business plan, based on end of June 2019 data and validated by the Board of Directors on December 19, 2019. As indicated in note 1.1.1.1, there are currently uncertainties surrounding the realization of this business plan which, in addition to the macro-economic factors, relate in particular to: • the conditions to access the facilities of the Eurosystem financing facilities after 2021; • the existence of new accounting or prudential rules not known to date by the Management of Dexia Crédit Local; • the long-term organizational and legal structure of Dexia Crédit Local; – we have considered the quarterly reports on the (i) funding strategy and (ii) operational continuity, prepared by Dexia Group as requested by the European Central Bank; – Concerning the health crisis related to the Covid-19 coronavirus, we have taken note of Management's assessment on its effects on the operational continuity of Dexia Group as of the date of closing the financial statements, and in particular on liquidity and solvency. We have also reviewed the information disclosed, in this respect, in the notes to the financial statements relating to events after closing date. 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.

Consequences of the Group's strategic refocusing *(We refer to the note 1.1.6.2.1, 1.3, 1.5.1, 2.13 in the notes to the Consolidated Financial Statements)*	
Key Audit Matter	**How our audit addressed the key audit matter**
Note 2.13 dedicated to the reclassification of financial assets sets out the decision approved by the Board of Directors of Dexia Group on May 22, 2019 relating to the realignment of Dexia Crédit Local activities and the acceleration of the disposal of the assets of the DCL New York branch. This decision has been analysed, in relation to the IFRS 9 standard, as a change of business model occurring in the first half of 2019. The accounting consequences of the change in business model lead to the reclassification as of July 1, 2019 (i.e. the first day of the following reporting period) of the relevant financial assets portfolios previously recognized at amortized cost, to the categories "financial assets at fair value through other comprehensive income" or "financial assets at fair value through profit or loss" depending on the estimated disposal horizon. The effect of the reclassification of this portfolio of assets from a notional of EUR 6,538 million amounted to EUR -288 million on the group's equity; it includes a charge of EUR 124 million linked to recycling in the income from the fair value reserve of cash flow hedging derivatives covering part of the reclassified securities. In addition, as indicated in note 1.5.1 "Events after the balance sheet date", in light of changes in regulations and the requirements of supervisors, the Board of Directors of July 19, 2019 decided to put in place implementation of a second program to sell financial assets for a notional amount of EUR 9.9 billion, the effects of which will be recorded on January 1, 2020. Given their accounting impacts in the consolidated financial statements and the accounting constraints applicable to management models under IFRS accounting standards, we considered the consequences of the strategic realignment of the Dexia Group as a key audit matter.	We have assessed the accounting impacts, with respect to the applicable accounting standards, of the decisions taken by the governance bodies regarding the change in the business model of several portfolios of financial assets. We performed, among other things, the following procedures: – reading the minutes of the main governance committees to ensure about the existence of new developments during the year; – reconciliation between the portfolio of assets for which governance bodies have acted a change in business model and the portfolio of assets effectively reclassified as of July 1, 2019 ; – analysis of the criteria used by the governance bodies to present financial assets in accounting categories with an impact on income or equity, and examination of their compliance with the accounting standards; – review of the impacts of the reclassification and disposal decisions on the hedge relationships, including (i) the derecognition of micro-hedging relationships (i) adjustments to the macro-hedging portfolio and (ii) the reversal of the reserve related to cash flow hedge derivatives associated with the variable interest rates borrowings financing these reclassified assets ; – the use of our experts to critically review, on a sample basis, the valuation of the portfolios of assets reclassified into fair value accounting categories. Regarding the second program of financial assets' disposals (remedial deleveraging plan), we have validated the absence of any accounting impact on the consolidated financial statements as of December 31, 2019 other than the information rightly disclosed in note 1.5.1 dedicated to post-closing events.

Operational risks linked to the information systems *(We refer to the note 1.4.2 in the notes to the Consolidated Financial Statements)*	
Key Audit Matter	**How our audit addressed the key audit matter**
As a banking group, Dexia Crédit Local is dependent, for its operational activities, on the reliability and security of its information systems. The activities of the Group takes place 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. In this context, and in order to ensure operational continuity, Dexia Crédit Local has outsourced its IT function (development, production and infrastructure) and back offices to an external service provider. Dexia Group has also decided, since the 2018 financial year, to entrust the upgrade and management of the IT infrastructure to the same service provider. In this specific context, the management of operational risk related to the performance of the information systems and the automated treatment of accounting and financial information is considered as a key audit matter.	The assessment of the general IT controls used throughout the accounting and financial information processing chains is a key step in our audit approach. The audit work performed, some of which was carried out directly at the external service provider, with the assistance of our IT specialists, consisted in particular of: – understanding the structure of the IT landscape and the processes and controls related to the production of the accounting and financial information; – examinating 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 and automated reconciliation applications 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 supervision framework currently developed by Dexia Group related to the key 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.

Assessment of credit risk and evaluation of impairments *(We refer to the notes 1.1.6.2.5, 1.4.1, 2.4 to 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 January 1, 2018, the impairments recorded by Dexia Crédit Local to cover the credit risks inherent in its banking activities are determined in accordance with the provisions of IFRS 9, 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 and stage 2; as explained here above Dexia Crédit Local strategic realignment has resulted in significant changes in the portfolio of assets' composition that led the Group to adapt its measurement methodology of the increase of credit risk ; – assessing the level of credit risk and the existence of an objective impairment indicator for the classification of the exposures in stage 3; – estimating for each stage 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 losses. As of December 31, 2019, financial assets' gross amounts exposed to credit risk amounts to EUR 86 976 million; the total impairments amounts to EUR 309 million and cost of risk of Dexia Crédit Local is positive and amounts to EUR 265 million. As the classification of exposures into the different credit risk stages and the determination of expected losses require management's judgment and estimates, we considered the assessment of the level of credit risk to be a key audit matter.	We have assessed the design and implementation of Dexia Crédit Local 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 processes: – governance: we have taken note of the internal control system framing the definition and validation of the impairment models and the parameters used to calculate these impairments, and of the work and conclusions of the risk management department concerning the internal validation of the IFRS 9 impairment models; – exposures' classification per stage: • we have checked the appropriate staging of outstanding amounts by stage. • with the assistance of our specialists in charge of the credit risk, we have validated Dexia Crédit Local retained methodologies for the measurement of the increase in credit risk and its correct operational implementation in the information systems; • we ensured that it qualifies as a change in estimate within the frame of IAS 8.34 and that it is correctly accounted for in Dexia Crédit Local consolidated financial statements. – evaluation of expected losses: • with the assistance of our specialists in charge of the credit risk, we have validated Dexia Crédit Local group retained methodologies for the determination of the parameters used for 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 related to the credit risk.

Valuation of the financial instruments classified in level 3 in the fair value hierarchy *(We refer to the notes 1.1.7, 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 as assets and liabilities classified in level 2 and 3 in the fair value hierarchy. These instruments are recorded at fair market value estimated by valuation models, for which the parameters are either unobservable nor can be corroborated directly with publicly available market data. The fair value calculated may be subject to additional value adjustments to take into account certain market, liquidity and counterparty risks, including for the derivatives: – Credit Value Adjustment (CVA): takes into account the risk of default of the counterparty; – Debit Value Adjustment (DVA): takes into account the own credit risk of Dexia; – Funding Value Adjustment (FVA): takes into account the financing costs for the non-collateralized derivatives; – and the use of an actualization curve based on a daily rate curve (OIS). The techniques used by Dexia Crédit Local to carry out the valuation of financial instruments, as well as the determination of additional value adjustments, involve a significant part of the judgment as to the methodologies defined, the choice of valuation parameters and adjustments to fair value, as well as in the selection and use of internal valuation models. These financial instruments classified at level 3 in the fair value hierarchy, described in note 7.1, represent EUR 19,239 million in assets and EUR 35,914 million in liabilities on the consolidated balance sheet at December 31, 2019. Due to the substantial outstanding amounts and the use of professional judgment during the estimation of the fair value, we have assessed that the evaluation of the financial instruments classified in level 3 is a key audit matter.	We have assessed the relevance of the key controls defined and implemented by Dexia Crédit Local in the context of the valuation of financial instruments classified in level 3, in particular those relating to: – The methodology for classifying financial instruments into fair value levels as defined by IFRS 13 and its periodic backtesting process; – The assessment of the risk of uncertainty on the valuation linked to the use of valuation models: we verified the existence of a cartography of the models, and we appreciated the documentation relating to the quantification of the risk of uncertainty linked the use of these models; – The independent verification of valuation parameters: we notably analyzed the relevance of the data sources used with regard to the general principles of valuation of a Mark-to-Market and we assessed the respect of the hierarchy of these sources; – The determination of fair value adjustments: we notably analyzed the relevance of the methodologies implemented, carried out an analytical review of the impacts and examined the reconciliation with the accounting data. We relied on our valuation experts to proceed, based on samples, to: – Analysis of the documentation by Dexia Crédit Local of the assessment of the risk of uncertainty around the use of valuation models; – Analysis of the relevance of the valuation parameters used; – The independent valuation review using our own models. We have examined the system for calculating and exchanging collateral on derivative instruments and have analyzed the main calculation differences with the counterparties for these instruments in order to confirm our assessment of the reliability of the valuations of Dexia Crédit Local. Finally, we examined the information published in the appendix to the consolidated financial statements relating to the valuation of financial instruments with regard to the requirements of IFRS 13.

Documentation and effectiveness of the hedging relationships *(We refer to the notes 1.1.10, 1.1.11, 4.1, 5.3 et 7.7 in the notes to the Consolidated Financial Statements)*	
Key Audit Matter	**How our audit addressed the key audit matter**
In conducting its financing activities, Dexia Crédit Local has decided to cover the risk of change in fair value or change in cash-flows of its assets and liabilities by using hedging derivatives. Dexia does not apply IFRS 9 but has chosen to continue to apply IAS 39 for all of its hedging relationships. The designation of a hedging relationship is defined by IAS 39 - Financial Instruments: Recognition and Measurement, in particular the following conditions must be met: – the documentation of the characteristics of the hedged item, of the hedging instrument, and of the type of hedging relationship designated; – The framework for the use of hedge accounting with the performance of retrospective and prospective tests; – Recording ineffectiveness in the income statement. At December 31, 2019, outstanding hedging derivatives amounted to EUR 1,378 million in assets, and EUR 19,184 million in liabilities. These derivatives generate negative hedge accounting net income of EUR 219 million. As indicated in note 1.1.1.2 of the appendices, Dexia Crédit Local considers that, in the current market situation, and following clarifications from the IASB on the accounting impacts of the reform "Reform of reference interest rates"), the IBOR reform does not call into question at December 31, 2019 its existing hedging relationships documented in accordance with IAS 39. Due to the significant nature of the impacts in the consolidated accounts of Dexia Crédit Local, we consider that the documentation and the effectiveness of the hedging relationships is a key point of the audit.	We have assessed the design of the internal control system and the governance related to the documentation and the effectiveness testing of the hedging relationships. In our audit work we have focused on: – the documentation of the hedging relationships; – the identification of the hedged portfolios and hedging instruments; – the process to perform the effectiveness tests supporting the hedging relationships designated over time; – the principles of derecognition of hedging relationships. Our work on the outstanding relationships at closing date focused on the following: – the reconciliation of the outstanding amounts per management accounting with the outstanding amounts per financial accounting; – the review of the effectiveness tests and the recording of the related inefficiency; – the analytical review of the variation of ineffectiveness over the year. We have involved our hedge accounting specialists to, based on a sample: – assess if the methodologies and the documentation of hedging relationships are compliant with IAS 39; – review the documentation related to the dealing of derivatives with the market when back-to-back hedging relationships are entered between Group entities. In addition, we have assessed if the methodology applied by Dexia Crédit Local complies with the IFRS standards on the accounting treatment of hedging relationships when a sale of a hedged instrument occurs. We have also assessed the accounting impacts related to the termination of hedging relationships or allocation of hedging instruments to new relationships. Finally, we have examined the information included in the notes of the Consolidated Financial Statements relating to the risks arising from the hedging relationships on behalf of Group's entities.

Specific verifications

In accordance with professional standards applicable in France, we have also performed the specific verifications required by law and regulations on the information relating to the Group given in the management report of the Board of Directors dated March 31, 2020. With respect to events that occurred and information known subsequent to the date of closing the financial statements relating to the effects of the Covid-19 crisis, management has informed us that they will be communicated to the shareholders ‘meeting called to approve the financial statements.

We have no matters to report regarding the fair presentation and the consistency with the consolidated financial statements.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed statutory auditors of Dexia Crédit Local by the shareholders ‘meeting of May 16, 2008 for the firm Deloitte & Associés and June 28, 1996 for the firm Mazars.
As of December 31, 2019, Deloitte & Associés was in the 12th year uninterrupted engagement and Mazars in its 24th year.

Responsibilities of Management and Those Charged with Governance for the consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adapted by the European Union, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.
The Audit Committee is in charge of the financial reporting process and monitoring the effectiveness of the internal control and risk management systems and, where applicable, the internal audit with respect to concerns procedures relating to the preparation and processing of accounting and financial information.
The consolidated accounts have been 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 to the audit committee a report which presents the scope of the audit work and the work program implemented, as well as the conclusions arising from our work. We also bring to its attention, where applicable, the significant weaknesses in internal control that we have identified with regard to the procedures relating to the preparation and processing of accounting and financial information.

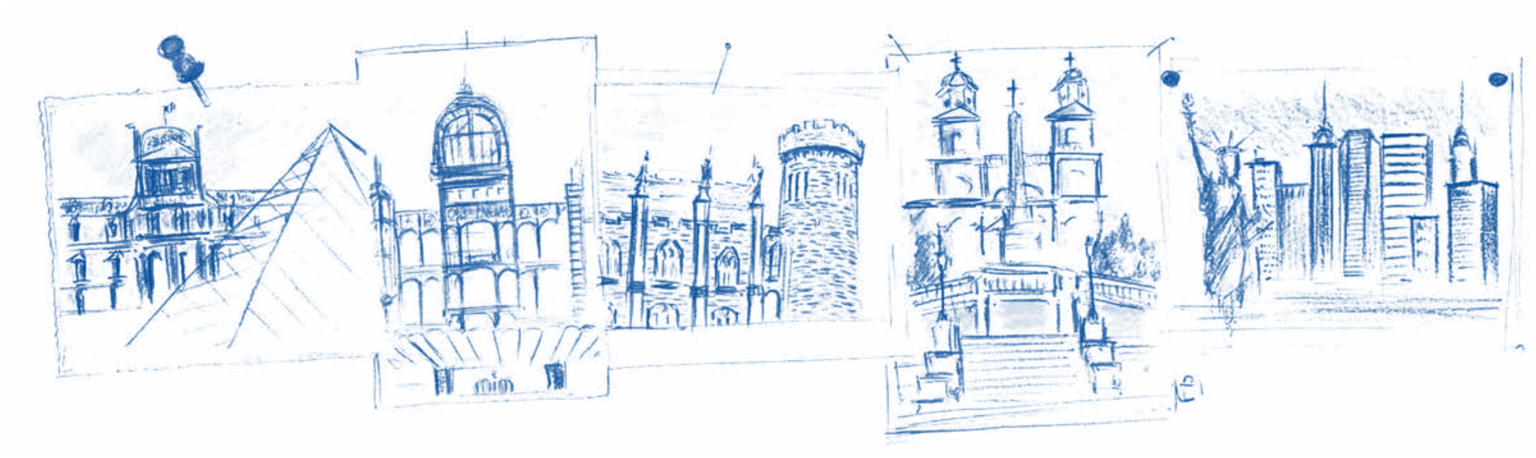
We describe risks of material misstatement that we consider the most significant to consolidated financial statements audit for the year ended December 31, 2019 and which therefore represent key audit matter in this report.

We also provide to the Audit Committee the declaration provided by Article 6 of Regulation (EU) No 537-2014 confirming our independence, according to the French standards as determined by Articles L. 822-10 to L. 822-14 of the French Commercial Code. When appropriate, we discuss with the audit committee risks related to our independence.

Paris La Défense and Courbevoie, April 10, 2020

French Original signed by the Statutory Auditors

DELOITTE & ASSOCIÉS	MAZARS	
Jean-Vincent COUSTEL	Virginie CHAUVIN	Claire GUEYDAN



Financial statements

Balance sheet

Assets

(in EUR million)	Note	As at 31/12/2018	As at 31/12/2019
I. Cash, central banks and postal checking accounts	2.1	796	9,176
II. Government securities	2.2	6,564	6,442
III. Interbank loans and advances	2.3	22,803	13,020
IV. Customer loans and advances	2.4	24,164	20,014
V. Bonds and other fixed-income securities	2.5	25,632	14,379
VI. Equities and other variable-income securities	2.6	108	64
VII. Long-term equity investments	2.7	714	210
VIII. Intangible assets	2.8	33	27
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	21,819	22,219
XIV. Accruals	2.10	6,250	3,813
TOTAL ASSETS		**108,885**	**89,366**

Liabilities and equity

(in EUR million)	Note	As at 31/12/2018	As at 31/12/2019
I. Interbank borrowings and deposits	3.1	22,841	11,271
II. Customer deposits	3.2	1	30
III. Debt securities	3.3	68,296	62,745
IV. Other liabilities	3.4	3,890	3,739
V. Accruals	3.4	9,088	7,129
VI. Provisions for risks and charges	3.5	1,327	733
VII. General banking risks reserve		0	0
VIII. Subordinated debt	3.6	163	56
EQUITY	3.7	**3,279**	**3,663**
IX. Capital stock		279	279
X. Additional paid-in capital		2,588	2,588
XI. Reserves and retained earnings		(235)	403
XII. Net income (loss) for the year		647	393
TOTAL LIABILITIES AND EQUITY		**108,885**	**89,366**

Off-balance sheet items

(in EUR million)		Note	As at 31/12/2018	As at 31/12/2019
COMMITMENTS GIVEN				
I.	Financing commitments given	*4.1*	1,869	1,847
II.	Guarantee commitments given	*4.2*	3,363	3,612
III.	Other commitments given	*4.3*	27,103	26,040
COMMITMENTS RECEIVED				
IV.	Financing commitments received	*4.4*	4,652	5,676
V.	Guarantee commitments received	*4.4*	13,257	10,959
VI.	Commitments related to securities	*4.5*	0	0
VII.	Commitments related to foreign currency transactions	*4.6*	56,951	61,797
VIII.	Commitments related to forward and derivative financial instruments	*4.7*	259,479	217,271

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Income statement

(in EUR million)		Note	As at 31/12/2018	As at 31/12/2019
I.	Interest income	*5.1*	3,964	3,780
II.	Interest expense	*5.1*	(3,513)	(3,439)
III.	Income from variable-income securities	*5.2*	4	168
IV.	Fee and commission income	*5.3*	1	1
V.	Fee and commission expenses	*5.3*	(13)	(25)
VI. A	Net gains (losses) on held-for-trading portfolio transactions	*5.4*	(295)	(72)
VI. B	Net gains (losses) on available-for-sale portfolio transactions	*5.4*	251	429
VI. C	Net gains (losses) on held-to-maturity portfolio transactions	*5.4*	67	(67)
VII.	Other banking income	*5.8*	0	3
VIII.	Other banking expenses	*5.8*	0	0
NET BANKING INCOME (LOSS / PROFIT)			**466**	**778**
IX.	General operating expenses	*5.5*	(307)	(308)
X.	Depreciation and amortisation		(14)	(17)
GROSS OPERATING INCOME (LOSS / PROFIT)			**145**	**453**
XI.	Cost of risk	*5.6*	(35)	195
OPERATING INCOME (LOSS / PROFIT) AFTER COST OF RISK			**110**	**648**
XII.	Net gains (losses) on non-current assets	*5.7*	528	(280)
INCOME (LOSS / PROFIT) BEFORE TAX			**638**	**368**
XIII.	Non-recurring items	*5.9*	11	2
XIV.	Corporate income tax	*5.10*	(2)	23
XV.	Net change in general banking risks reserve		0	0
NET INCOME (LOSS / PROFIT)			**647**	**393**
BASIC EARNINGS PER SHARE (EUR)			2.32	1.41
FULLY DILUTED EARNINGS PER SHARE (EUR)			2.32	1.41

Notes to the financial statements

Accounting policies and valuation methods

1.1. Significant events during the financial period

The significant events during the financial year are as follows:

Operations to transfer assets, reclassify assets and close entities

On 25 February 2019, the Dexia Board of Directors approved the plan to transform the New York branch into a representative office.

In particular this plan included the transfer to Dexia Crédit Local in Paris of the asset portfolios, their financing and associated derivatives, as of 1 July 2019 for loans and 1 October 2019 for securities. These transfers have no impact on the 2019 income statement or the balance sheet total. During the first half of 2020, the New York branch will be transformed into a representative office.

Prior to this transfer and following portfolio reviews, the US portfolio with DCL New York, comprising 171 securities, was reclassified from Investment Securities to Marketable Securities for an outstanding amount of USD 4.4 billion following the improvement in liquidity observed on these securities.

DCL Madrid, a branch of Dexia Crédit Local, born from the cross-border merger of Dexia Sabadell with Dexia Crédit Local on 1 October 2016, was closed on 29 March 2019.

Holdings

On 30 April 2019, after obtaining all regulatory authorisations, Dexia Crédit Local sold 100% of the shares of Dexia Kommunalbank Deutschland to Helaba. Taking into account the dividend distribution voted at the Shareholders' Meeting held on 28 March 2019, the sale price and the book value of the holding, this sale resulted in the recognition of net income of EUR 1 million.

The end of the specific approach granted by the European Central Bank necessitated a strengthening of the level of equity of Dexia Crediop, the Italian subsidiary of Dexia Crédit Local, due in particular to the obligation to respect the Liquidity Coverage Ratio (LCR), leading to the implementation of a new funding plan. In order to ensure compliance with the bank's solvency ratios, an Extraordinary Shareholders' Meeting of Dexia Crediop was held on 22 November 2019 and approved a capital increase of EUR 120 million consisting of the issue of 12 billion new ordinary shares without nominal value, at a subscription price per share of EUR 0.01.

As the minority shareholders of Dexia Crediop, Banco BPM SpA and BPER Banca SpA, did not wish to participate in this capital increase, Dexia Crédit Local subscribed to the entire amount, thus increasing its stake in Dexia Crediop from 70% to 99.57%. The impact of this capital increase on the prudential equity of Dexia Crédit Local is negligible. On the other hand, taking into account the prospects for the future profitability of Dexia Crediop, the value of the Dexia Crédit Local holding in this entity was brought to zero in the statutory accounts of Dexia Crédit Local at the end of December 2019.

Other significant events of the year

Risks associated with the outsourcing of activities to Cognizant

At the end of 2017, Dexia Crédit Local decided to outsource its IT and back-office services to Cognizant. The management of the IT infrastructure was also transferred to Cognizant in 2018.

Within the framework of the outsourcing agreements for these activities between Dexia and Cognizant, specific monitoring is carried out by Dexia Crédit Local Risk Management for the governance of operations and risks through joint Dexia Crédit Local / Cognizant committees.

The Watchtower team, set up within Dexia Crédit Local, is on the other hand responsible for verifying the proper execution and quality of the services provided by Cognizant.

Furthermore, Cognizant, as a provider of essential services, has undertaken to implement the three levels of control deployed within the Dexia Crédit Local Group and to deploy certain specific anti-fraud controls relating in particular to the segregation of tasks or the control of IT access.

Dexia Crédit Local has also established an internal control system and an anti-fraud system applicable to outsourced activities. A second-level control plan has been defined and is implemented by the Dexia Crédit Local teams responsible for these functions. In the same way, these activities are integrated into the Dexia Crédit Local audit universe and reviewed at a frequency adapted to the risks involved.

A specific Audit, Control-Compliance and Operational Risk Committee (ACO) meets every quarter and includes Dexia Crédit Local's Chief Risk Officer (CRO) and Chief Operating Officer (COO), the heads of Cognizant, the heads of second-level control functions at Dexia Crédit Local and some heads of operational teams at Cognizant. The role of this committee is to ensure the coordination of internal control functions, to share the results of control plans and to review their implementation, including the review of audit recommendations issued by Dexia Crédit Local, Dexia Crédit Local's auditors and supervisors

1.2. Post-balance-sheet events

COVID-19 crisis

Dexia Crédit Local is closely monitoring the evolution of the situation linked to the spread of the Covid-19 coronavirus throughout the world and particularly in Europe. The Management Board has rapidly activated the operational and strategic crisis units to protect its teams and has implemented all the necessary measures to enable its teams to work remotely. The crisis unit ensures the operational continuity of the company and manages all impacts related to this situation.

As at the date of approval of Dexia Crédit Local's financial statements by the Board of Directors, the severity of the pandemic has had a major impact on the financial markets, resulting in a very high volatility of all financial indices, a steepening of interest rate curves and a decline in the value of shares and bonds affecting all categories of borrowers. Containment measures make the execution of market transactions extremely complex. Finally, given the high degree of uncertainty about the development of the crisis, the maturities sought by money market investors have become much shorter.

The rapid progress made towards meeting the acceleration targets of the deleveraging plan, set in 2019 by the Dexia Group's governance bodies, has made it possible significantly to reduce the size of its commercial portfolios as well as its funding requirements. As at 31 December 2019, Dexia Crédit Local had a liquidity buffer of EUR 19.4 billion, enabling it to cope with market tensions, and its LCR ratio amounted to 236%. Prior to the deepening of the crisis, Dexia Crédit Local had executed 33% of its long-term guaranteed funding programme, and since then it has financed itself mainly through secured funding (repo).

The current crisis makes the implementation of the asset disposal plan more complex and exposes Dexia Crédit Local to fluctuations in the value of assets not sold and reclassified at fair value. On the other hand, Dexia Crédit Local could experience a deterioration in the credit quality of its asset portfolio which cannot be assessed at the date of approval of the financial statements by the Board of Directors. At the end of December 2019, Dexia Crédit Local's Total Capital ratio was 23.7%, a level above the minimum of 13.85% imposed for the year 2019 by the European Central Bank (ECB) within the framework of the Supervisory Review and Evaluation Process (SREP).

As part of the fight against the crisis triggered by the Covid-19 epidemic, the ECB, the Banque de France, the National Bank of Belgium and the European Banking Authority (EBA) announced measures aimed at easing prudential requirements and operating costs for credit institutions. Thus, the ECB is exceptionally and temporarily allowing banks to operate with ratio levels which may be below the LCR liquidity ratio, capital conservation buffer requirements (requirement of 2.5% as at 1 January 2020) and requirements under the Pillar 2 guidance (P2G). The High Level Financial Stability Board has also decided to relax the countercyclical buffer in full until further notice.

Including these easing measures, the capital requirement applicable to Dexia Crédit Local rises to 11.25% on a consolidated basis.

The asset repurchase programmes (PEPP for the ECB) announced in a coordinated manner by the central banks and the launch of long-term refinancing operations (LTROs) is also intended to support market liquidity.

Finally, the ECB has announced that banks will be given additional time in which to take the corrective actions resulting from previous inspections and may grant additional time in the delivery of certain regulatory postponements to facilitate business continuity. The EBA also decided to postpone the 2020 stress test exercise for all institutions until 2021.

Dexia Crédit Local will benefit from these measures in the same way as other credit institutions.

At the date of drawing up the financial statements, Dexia Crédit Local has taken these different elements into account and concluded that they do not call into question the assessment of the going concern (cf. note on going concern).

1.3. Accounting policies and valuation methods used to present the financial statements

The statutory financial statements of Dexia Crédit Local as at 31 December 2019 were prepared in line 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 and established on the basis of the elements available on the date the financial statements were approved by the Board of Directors. In particular:

- 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 2019 and validated by the Board of Directors of Dexia on 19 December 2019 integrates the regulatory developments known to that date, including the final version of the CRD IV Directive. It also 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. This update does not integrate the results of the on-site inspection (OSI) by the European Central Bank on operational risk and outsourced activities, on which the definitive report has not yet been received by Dexia.
- The ongoing resolution assumes that Dexia Crédit Local retains a sound funding capacity, relying in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on its capacity to raise secured funding.
- The latest update of the business plan takes account of a revision of the funding plan relying on the last observable market conditions. Dexia Crédit Local has continuously reduced its funding requirement and extended the maturity of the funding raised, with a view to the prudent management of its liquidity. This enables it 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. As at the end of 2019, Dexia Crédit Local had a liquidity buffer amounting to EUR 19.4 billion, half of which consisted of cash.
- The acceleration of the deleveraging decided during the summer 2019, combined with the sale of DKD, led to a EUR 32 billion decrease of Dexia Crédit Local's funding

requirement over the year, partially driven by a rapid reduction of the funding requirement in US dollar. The achievement of the funding programme in 2019, in line with the budget, as well as the successful launch of its first 2020 7-year benchmark issue for EUR 1.5 billion is a reflection of the good funding capacity of Dexia Crédit Local which resilience vis-à-vis the risk of liquidity, in normal market circumstances, strongly improved in 2019. Finally, the confirmation by the European Commission of the prolongation of the liquidity guarantee provided by the French and Belgian States beyond 31 December 2021 for up to EUR 75 billion provides great comfort for the continuation of the Dexia Group's orderly resolution.

• The business plan assumes the maintenance of the banking licences of Dexia Crédit Local and the maintenance of the Dexia Crédit Local rating at the level of Investment Grade.

• When assessing the appropriateness of the going concern, the Dexia management has challenged the consistency of the strategic choices made by its shareholders with long-term financial forecasts. The management also factored in the constraints and uncertainties related to its operating model as well as the risk attached to its operational continuity, given its specific nature of a bank in run-off, and took the appropriate actions to mitigate such risks.

Uncertainties remaining with regard to implementation of the business plan over the duration of the Dexia Group's resolution led to regular reviews and adjustments to the original plan and, over time, may involve a significant change of the resolution trajectory as initially anticipated. In particular, this plan is likely to be impacted by new developments in accounting and prudential rules.

Dexia and Dexia Crédit Local are also very 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 and Dexia Crédit Local's liquidity and solvency position. It could also impact the valuation of financial assets, 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 the regulatory capital. In particular, considering decisions taken by Dexia's Board of Directors in relation to the implementation of two asset sales programmes, for a total amount of approximately EUR 18 billion, Dexia Crédit Local is exposed to the evolution of macroeconomic conditions and market parameters on these assets until their effective disposal.

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

At this stage, these uncertainties 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 the "going concern".

Moreover, Dexia Crédit Local is closely monitoring the evolution of the situation linked to the spread of the Covid-19 coronavirus throughout the world and particularly in Europe. On the date of approval of Dexia Crédit Local's financial statements by the Board of Directors, the severity of the pandemic has had major consequences on the financial markets. It will have a severe impact on economic growth and could lead to a deterioration in the quality of the assets held by Dexia Crédit Local that cannot be assessed at this stage.

Dexia Crédit Local has rapidly implemented the necessary measures to ensure operational continuity within the context of a confinement of staff members and subcontractors. Its liquidity reserves enable it to cope with the tensions existing on the money market on the date of approval of the financial statements by the Board of Directors and the measures announced by the supervisors to relax solvency ratios increase its excess capital buffer.

As a consequence, after taking account of all these elements developed in part in Appendix 1.5.2. to the consolidated financial statements in this annual report, Dexia Crédit Local management confirms that, at the end of 2019, the financial statements can be prepared in accordance with the rules applicable to a going concern. The subsequent analysis of the effects of the Covid-19 crisis carried out by Dexia Crédit Local management has not led to call into question the assessment of the going concern agreement.

The financial statements have been prepared in accordance with the principles and standards contained in European Council Directives governing the financial statements of banking institutions, in compliance with Regulation n° 2014-07, regarding the preparation of individual financial statements.

a. Changes in accounting policies and valuation methods applied to the financial statements

No changes have been made to the accounting policies and valuation methods applied to the financial statements.

b. Measurement of items in the balance sheet, off-balance sheet and income statement in the summary financial statements

The summary financial statements have been prepared in accordance with the rules of prudence, and fundamental accounting principles:

• going concern assumption;
• matching principle;
• consistency criterion.

Customer loans

Any loans approved but not yet disbursed are shown as off-balance sheet items.

Current and accrued interest on customer loans is recognised in banking income on an accrual basis, as is the interest on overdue payments. Interest on non-performing loans reported in net banking income is neutralised by the recognition of an equivalent amount of impairment.

Related fees and commissions received and incremental transaction costs on extending or acquiring credits, if significant, are spread over the effective life of the loan. Other fees received are recorded directly to income.

For both accounting and tax purposes, all early repayment penalties on loans recognised up to 31 December 2004 will continue to be amortised over the remaining life of the related loans in proportion to the outstanding interest that would have had to be paid. The balance of outstanding penalties to be amortised is classified under deferred income.

Since 1 January 2005, all early repayment penalties on loans have been taken into income at the repayment date.

Customer loans are stated in the balance sheet net of provisions for possible losses. They are broken out into four separate categories: performing loans, restructured performing loans, non-performing loans under collection and doubtful non-performing loans.

Non-performing loans are considered to be doubtful as soon as it becomes apparent that they will probably or certainly not be repaid. Non-performing loans are defined as any loans that are more than three months overdue in accordance with

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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.

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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:

- 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 provided for a gradual reduction of the corporate tax rate from 2019 in order to bring it down to 25% in 2022. However, large companies were excluded from this drop by a law dated as of 24 July 2019. As a consequence, in 2019 such companies continue to be subject to the rate of 33 1/3% for profits above EUR 0.5 million (rate at 28% below). In 2020, the rate will be brought to 31% for profits above EUR 0.5 million (rate 28% below). Then the rate will keep decreasing, for whole profits, to 27.5% in 2021, and to 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

	0

b. Detailed analysis, excluding accrued interest

(in EUR million)	As at 31/12/2018	As at 31/12/2019
Cash	0	0
Deposits with central banks and issuing institutions[1]	796	9,176
Deposits with postal checking accounts	0	0
TOTAL	796	9,176

(1) EUR 9.2 billion liquidity reserve in the form of cash deposits with central banks.

2.2. Government securities eligible for Central Bank refinancing (item II - assets)

a. Accrued interest

(in EUR million)	108

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2018	As at 31/12/2019	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
	6,452	6,334	0	0	510	5,824

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 31/12/2018	**62**	**889**	**5,501**	**6,452**
Movements for the year:				
• acquisitions[1]	0	0	297	297
• disposals and redemptions	0	(352)	(21)	(373)
• transfers	0	0	0	0
• translation adjustments	0	4	1	5
• other[2]	14	(4)	(56)	(46)
Costs as at 31/12/2019	**76**	**537**	**5,722**	**6,335**
Impairment as at 31/12/2018	**0**	**(1)**	**0**	**(1)**
Movements for the year:				
• charges	0	0	0	0
• recoveries	0	0	0	0
• translation adjustments	0	0	0	0
• other	0	0	0	0
Impairment as at 31/12/2019	**0**	**(1)**	**0**	**(1)**
Net carrying amount as at 31/12/2019	**76**	**536**	**5,722**	**6,334**

Additional information concerning government securities is provided in note 2.5
(1) Acquisition of investment securities is exclusively related to the purchase of government securities as part of a long-term investment.
(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 2019.

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)	(3)

b. Analysis by residual to maturity, excluding accrued interest

(in EUR million)	As at 31/12/2018	As at 31/12/2019	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Demand loans and advances	8,777	648	648	0	0	0
Term loans and advances	14,026	12,376	1,578	4,177	6,001	620
TOTAL	22,803	13,023	2,226	4,177	6,001	620

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 31/12/2018	As at 31/12/2019
Subordinated interbank loans	0	0
Non-subordinated interbank loans	14,026	12,376
TOTAL	14,026	12,376

e. Analysis of subordinated non-performing loans, excluding accrued interest

No non-performing and litigious loans.

2.4. Customer loans and advances (item IV - assets)

a. Accrued interest

(in EUR million)	137

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2018	As at 31/12/2019	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity or not analysed
	23,992	19,877	593	619	3,259	15,406	0

c. Analysis by type of borrower, excluding accrued interest

	As at 31/12/2018	As at 31/12/2019		
(in EUR million)	Total	Public sector	Other sectors	Total
Performing loans	23,445	9,314	10,212	19,526
Restructured performing loans	0	0	0	0
Non-performing loans under collection	532	81	270	351
Doubtful non-performing loans	15	0	0	0
TOTAL	23,992	9,395	10,482	19,877

d. Analysis of non-performing loans, excluding accrued interest

VALUATION OF RISK (in EUR million)	As at 31/12/2018	As at 31/12/2019
Gross non-performing loans under collection	677	471
Accumulated impairment	(145)	(120)
NET NON-PERFORMING LOANS UNDER COLLECTION	532	351
Gross doubtful non-performing loans	70	7
Accumulated impairment	(55)	(7)
NET DOUBTFUL NON-PERFORMING LOANS	15	0

e. Analysis by degree of subordination, excluding accrued interest

(in EUR million)	As at 31/12/2018	As at 31/12/2019
Subordinated customer loans	0	0
Non-subordinated customer loans	23,992	19,877
TOTAL	23,992	19,877

f. Analysis of loans by type of counterparty, excluding accrued interest

(in EUR million)	As at 31/12/2018	As at 31/12/2019
Encours brut - Sociétés non consolidées	0	0
Encours brut - Sociétés affiliées	0	0
Encours brut - Autres	23,992	19,877
TOTAL	**23,992**	**19,877**

2.5. Bonds and other fixed-income securities (item V - assets)

a. Accrued interest

(in EUR million)	118

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2018	As at 31/12/2019	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
	25,401	**14,261**	891	212	2,762	10,396

c. Analysis by type of issuer, excluding accrued intered

Analysis by type of issuer, excluding accrued intered (in EUR million)	As at 31/12/2018	As at 31/12/2019
Public sector issuers	13,222	9,514
Other issuers	12,179	4,747
TOTAL	**25,401**	**14,261**

d. Analysis by type of portfolio and movements for the year, excluding accrued interest

	Banking activity and other			Total
(in EUR million)	Held for trading	Available for sale	Held to maturity	
COSTS AS 31/12/2018	**2,095**	**11,945**	**11,662**	**25,702**
Movements for the year:				
• acquisitions(1)			288	288
• disposals and redemptions	(826)	(10,152)	(1,377)	(12,355)
• transfers(3)	0	3,817	(3,817)	0
• other movements(2)	101	185	107	393
• translation adjustments	13	172	128	313
COSTS AS 31/12/2019	**1,383**	**5,967**	**6,991**	**14,341**
IMPAIRMENT AS AT 31/12/2018	**0**	**(282)**	**(19)**	**(301)**
Movements for the year:				
• charges	0	(85)	0	(85)
• recoveries	0	313	0	313
• transfers(3)	0	(19)	19	0
• other movements	0	0	0	0
• translation adjustments	0	(7)	0	(7)
IMPAIRMENT AS AT 31/12/2019	**0**	**(80)**	**0**	**(80)**
NET CARRYING AMOUNT AS AT 31/12/2019	**1,383**	**5,887**	**6,991**	**14,261**

(1) Held for trading acquisitions are related to bonds borrowings used as collateral in refinancing operations.
(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 transfer amount corresponds to the transfer from investment security to investment security of 01/04/2019.

e. Analysis by type of portfolio

(in EUR million)	As at 31/12/2018 Held for trading	Available for sale	Held to maturity	Total	As at 31/12/2019 Held for trading	Available for sale	Held to maturity	Total
Government securities	**62**	**905**	**5,597**	**6,564**	**76**	**545**	**5,821**	**6,442**
Gross carrying amount	62	873	5,027	5,962	76	478	5,250	5,804
Premiums/discounts	0	17	474	491	0	59	472	531
Related receivables	0	16	96	112	0	9	99	108
Impairment	0	(1)	0	(1)	0	(1)	0	(1)
Market value	62	1,081	6,354	7,497	76	657	7,684	8,417
Bonds and other fixed-income securities	**2,095**	**11,780**	**11,757**	**25,632**	**1,383**	**5,945**	**7,051**	**14,379**
Gross carrying amount	2,095	12,068	12,137	26,300	1,383	6,031	7,182	14,596
Premiums/discounts	0	(123)	(475)	(598)	0	(64)	(191)	(255)
Related receivables	0	117	114	231	0	58	60	118
Impairment	0	(282)	(19)	(301)	0	(80)	0	(80)
Market value	2,095	14,250	14,894	31,239	1,383	7,699	10,036	19,118
Equities and other variable-income	**0**	**108**	**0**	**108**	**0**	**64**	**0**	**64**
Gross carrying amount	0	142	0	142	0	96	0	96
Premiums/discounts	0	0	0	0	0	0	0	0
Related receivables	0	0	0	0	0	0	0	0
Impairment	0	(34)	0	(34)	0	(32)	0	(32)
Market value	0	138	0	138	0	86	0	86
Total securities portfolio	**2,157**	**12,793**	**17,354**	**32,304**	**1,459**	**6,554**	**12,872**	**20,885**
PROVISIONS FOR RISKS AND CHARGES(1)	**0**	**996**	**0**	**996**	**0**	**587**	**0**	**587**

(1) The EUR 587 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 31/12/2018 Held for trading	Available for sale	Held to maturity	Total	As at 31/12/2019 Held for trading	Available for sale	Held to maturity	Total
Government securities	**62**	**905**	**5,597**	**6,564**	**76**	**545**	**5,821**	**6,442**
Central governments	62	876	5,593	6,531	76	515	5,637	6,228
Local governments	0	27	4	31	0	28	4	32
Credit institutions	0	2	0	2	0	2	180	182
Bonds and other fixed-income securities	**2,095**	**11,780**	**11,757**	**25,632**	**1,383**	**5,945**	**7,051**	**14,379**
Central governments	0	1,998	104	2,102	0	1,932	402	2,334
Local governments	0	5,278	6,030	11,308	0	1,730	1,570	3,300
Credit institutions	1,620	1,048	3,021	5,689	927	497	2,411	3,835
Other private-sector entities	475	3,456	2,602	6,533	456	1,786	2,668	4,910
Equities and other variable-income	**0**	**108**	**0**	**108**	**0**	**64**	**0**	**64**
Equities and other variable-income securities	0	24	0	24	0	20	0	20
Mutual funds	0	84	0	84	0	44	0	44
Total securities portfolio	**2,157**	**12,793**	**17,354**	**32,304**	**1,459**	**6,554**	**12,872**	**20,885**

g. Analysis by listing of securities

(in EUR million)	As at 31/12/2018 Held for trading	As at 31/12/2018 Available for sale	As at 31/12/2018 Held to maturity	As at 31/12/2018 Total	As at 31/12/2019 Held for trading	As at 31/12/2019 Available for sale	As at 31/12/2019 Held to maturity	As at 31/12/2019 Total
Government securities	**62**	**905**	**5,597**	**6,564**	**76**	**545**	**5,821**	**6,442**
Listed securities(1)	62	890	5,594	6,546	76	530	5,819	6,425
Unlisted securities	0	15	3	18	0	15	2	17
Bonds and other fixed-income securities	**2,095**	**11,780**	**11,757**	**25,632**	**1,383**	**5,945**	**7,051**	**14,379**
Listed securities(1)	95	3,598	6,641	10,334	65	1,530	6,237	7,832
Unlisted securities	2,000	8,182	5,116	15,298	1,318	4,415	814	6,547
Equities and other variable-income	**0**	**108**	**0**	**108**	**0**	**64**	**0**	**64**
Listed securities(1)	0	89	0	89	0	50	0	50
Unlisted securities	0	19	0	19	0	14	0	14
Total securities portfolio	**2,157**	**12,793**	**17,354**	**32,304**	**1,459**	**6,554**	**12,872**	**20,885**

(1) "Listed" means quoted on a securities exchange.

h. Analysis by degree of subordination, excluding accrued interest

(in EUR million)	As at 31/12/2018	As at 31/12/2019
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	30	0
Non-subordinated bonds and other non-subordinated fixed-income securities	25,371	14,261
TOTAL	25,401	14,261
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	3,842
Carrying amount of assets reclassified as at 31 december 2019	544
Fair value of reclassified assets as at 31 december 2019	747
Premium/Discount as at transfer date	0

Following their reclassification in investment securities, EUR 3.234 million of outstanding were sold in 2019.

j. Analysis of non-performing loans, excluding accrued interest

Valuation of risk (in EUR million)	As at 31/12/2018	As at 31/12/2019
Gross non-performing loans under collection	434	39
Accumulated impairment	(80)	(3)
NET NON-PERFORMING LOANS UNDER COLLECTION	354	36

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 31/12/2018	**0**	**140**	**140**
Movements for the year:			
• acquisitions[(1)]	0	62	62
• disposals and redemptions[(1)]	0	(108)	(108)
• other movements	0	0	0
• translation adjustments	0	2	2
Cost as 31/12/2019	**0**	**96**	**96**
Impairment as at 31/12/2018	**0**	**(32)**	**(32)**
Movements for the year:			
• charges	0	(1)	(1)
• recoveries	0	2	2
• other movements	0	0	0
• translation adjustments	0	(1)	(1)
Impairment as at 31/12/2019	**0**	**(32)**	**(32)**
NET CARRYING AMOUNT AS AT 31/12/2019	**0**	**64**	**64**

(1) movements correspond to the activity of the UCITS portfolio

b. Transfers between porfolios (excluding insurance business)

No transfers were made between portfolios in 2019.

c. Unrealised gains and losses on variable income securities

(in EUR million)	Carrying amount as at 31/12/2019	Market value as at 31/12/2019	Net unrealised capital gain as at 31/12/2019
SECURITIES	**64**	**69**	**5**

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 estments	Total
Cost as at 31/12/2018	**3,863**	**12**	**3,875**
Movements for the year:			
• acquisitions[(1)]	120	0	120
• disposals and redemptions[(2)]	(794)	0	(794)
Cost as at 31/12/2019	**3,189**	**12**	**3,201**
Impairment as at 31/12/2018	**(3,155)**	**(6)**	**(3,161)**
Movements for the year:			
• charges[(3)]	(120)	0	(120)
• recoveries[(4)]	290	0	290
Impairment as at 31/12/2019	**(2,985)**	**(6)**	**(2,991)**
NET CARRYING AMOUNT AS AT 31/12/2019	**204**	**6**	**210**

(1) Capital increase of Crediop of EUR 120 million.
(2) Disposal of Dexia Kommunalbank Deutchland AG of EUR 794 millions.
(3) An impairment of securities for EUR 120 million has been constituted to Crediop.
(4) The movements of EUR 290 million correspond to the liquidation of Dexia Kommunalbank Deutchland AG.

c. Listing of securities

(in EUR million)	Net carrying amount as at 31/12/2019	Market value as at 31/12/2019	Unrealised capital gain as at 31/12/2019
Listed securities	0	0	0
Unlisted securities	210		
TOTAL	210		

d. Significant investments

(in EUR million)	Gross carrying amount as at 31/12/2019	Impairment as at 31/12/2019	Net carrying amount as at 31/12/2019
Listed securities	0	0	0

Unlisted securities (in EUR million)	Gross carrying amount as at 31/12/2019	Impairment as at 31/12/2019	Net carrying amount as at 31/12/2019	% interest in capital	Interest in capital as at 31/12/2019	Last balance sheet date
TOTAL	3,201	(2,991)	210			
of which:						
DEXIA HOLDINGS Inc.	2,283	(2,283)	0	100.00%	(88)	31/12/19
DEXIA CREDIOP	701	(701)	0	99.57%	810	31/12/19
DEXIA FLOBAIL	197	0	197	100.00%	27	31/12/19
DEXIA CLF REGIONS BAIL	8	0	8	100.00%	33	31/12/19

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 31/12/2018	0	184	184
Movements of the year:			
• increases	0	10	10
• decreases	0	(27)	(27)
• other	0	0	0
• translation adjustmens	0	0	0
GROSS CARRYING AMOUNT AS AT 31/12/2019	0	167	167
Amortisation and impairment as at 31/12/2018	**0**	**(151)**	**(151)**
Movements for the year:			
• charges	0	(16)	(16)
• recoveries	**0**	27	27
• other	0	0	0
• translation adjustments	0	0	0
Amortisation and impairment as at 31/12/2019	**0**	**(140)**	**(140)**
NET CARRYING AMOUNT AS AT 31/12/2019	0	27	27

Intangible assets primarily include software purchased and in-house software development costs that have been capitalised.

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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 31/12/2018	**0**	**7**	**20**	**0**	**27**
Movements of the year:					
• increases	0	0	1	0	1
• decreases	0	(7)	(10)	0	(17)
• other	0	0	0	0	0
• translation adjustmens	0	0	0	0	0
COST AS AT 31/12/2019	**0**	**0**	**11**	**0**	**11**
AMORTISATION AND IMPAIRMENT AS AT 31/12/2018	**0**	**(7)**	**(19)**	**0**	**(26)**
Movements for the year:					
• charges	0		(1)	0	(1)
• recoveries	0	7	11	0	18
• other	0	0	0	0	0
• translation adjustments	0	0	0	0	0
AMORTISATION AND IMPAIRMENT AS AT 31/12/2019	**0**	**0**	**(9)**	**0**	**(9)**
NET CARRYING AMOUNT AS AT 31/12/2019	**0**	**0**	**2**	**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 31/12/2018	As at 31/12/2019
OTHER ASSETS		
Premiums paid on swaptions issued	0	0
Premiums paid on options	1	0
Guarantee deposits paid (1)	21,533	22,203
Tax receivables	11	3
Deferred tax assets	0	0
Other non-current financial assets	0	0
Other	275	13
TOTAL OTHER ASSETS	**21,819**	**22,219**

(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 31/12/2018	As at 31/12/2019
ACCRUALS		
Premiums and deferred charges on borrowings	79	82
Premiums on loans and other deferred charges on loans	101	101
Premiums and deferred charges on hedging transactions	724	944
Premiums and deferred charges on trading transactions	709	1,335
Accrued income on hedging transactions	645	572
Accrued income on trading transactions	3,599	351
Unrealised translation losses	350	161
Other accrued income	43	267
TOTAL ACCRUALS	**6,250**	**3,813**

2.11. Analysis of assets by currency

Classification by original currency

(in EUR million)	As at 31/12/2019
In EUR	51,181
In other EU currencies	13,257
In all other currencies	24,928
TOTAL ASSETS	**89,366**

3. Notes to the liabilities and equity

3.1. Interbank borrowings and deposits (item I - liabilities and equity)

a. Accrued interest

(in EUR million)	15

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2018	As at 31/12/2019	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Demand deposits	96	118	118	0	0	0
Term deposits	22,708	11,138	3,290	3,625	2,633	1,590
TOTAL	**22,804**	**11,256**	**3,408**	**3,625**	**2,633**	**1,590**

3.2. Customer deposits (item II - liabilities and equity)

a. Accrued interest

	0

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2018	As at 31/12/2019	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Demand deposits	0	29	29	0	0	0
Term deposits	1	1	0	0	0	1
TOTAL	**1**	**30**	**29**	**0**	**0**	**1**

c. Analysis by type of issuer, excluding accrued interest

(in EUR million)	As at 31/12/2018	As at 31/12/2019
Public sector	0	29
Other sectors	1	1
TOTAL	**1**	**30**

3.3. Debt securities (item III - liabilities and equity)

a. Accrued interest

(in EUR million)	251

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2018	As at 31/12/2019	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Interbank and other negotiable debt securities	63,968	60,203	6,448	16,743	30,010	7,002
Debt securities	4,058	2,291	1,335	899	0	57
TOTAL	**68,026**	**62,494**	**7,783**	**17,642**	**30,010**	**7,059**

As at 31 December 2019, Dexia Crédit Local's issues are covered by the State guarantee mechanism for EUR 60.5 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 31/12/2018	**63,968**	**3,681**	**377**	**68,026**
Movements for the year:				
• new issues	22,458	953	0	23,411
• redemptions	(26,839)	(2,428)	(352)	(29,619)
• translation adjustments	616	50	3	669
• other	0	7	0	7
AS AT 31/12/2019	**60,203**	**2,263**	**28**	**62,494**

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 31/12/2018	As at 31/12/2019
OTHER LIABILITIES		
Guarantee deposits received[1]	3,015	3,723
Premiums on options sold	0	0
Other creditors	875	16
TOTAL OTHER LIABILITIES	**3,890**	**3,739**
ACCRUALS		
Deferred income on loans	105	117
Discounts recognised on purchase of receivables	10	2
Deferred income on hedging transactions	2,899	2,770
Deferred income on trading transactions	1,162	961
Deferred gains on hedging contracts	28	0
Accrued charges on hedging transactions	768	619
Accrued charges on trading transactions	3,773	415
Unrealised translation gains	196	223
Other deferred income	5	1
Other accrued charges	47	77
Other accrued liabilities	95	1,944
TOTAL ACCRUALS	**9,088**	**7,129**

(1) Evolution of cash collateral received

3.5. Provisions for risks and charges (item VI - liabilities and equity)

(in EUR million)	As at 31/12/2018	Charges	Recoveries	Transfers	Translation adjust-ments	As at 31/12/2019
PROVISIONS FOR RISKS AND CHARGES	**1,327**	**692**	**(1,253)**	**0**	**(33)**	**733**
Pensions and similar commitments	0	1	0	0	0	1
Financing commitments	50	43	(50)	0	0	43
Other financial instruments[1]	996	610	(1,043)		24	587
Other risks and charges[2]	281	38	(160)	0	(57)	102
PROVISIONS FOR DEFERRED TAXES	**0**	**0**	**0**	**0**	**0**	**0**
REGULATED PROVISIONS	**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	**1,327**	**692**	**(1,253)**	**0**	**(33)**	**733**

(1) Provisions for risks on other financial instruments are presented in note 2.5 d for the breakdown by type of portfolio.
(2) Other provisions for risks and charges in 2019 primarily include a provision relating to the loan desensitisation activity for EUR 66 million .

3.6. Subordinated debt (item VIII - liabilities and equity)

a. Accrued interest (in EUR million)

(in EUR million)	0

b. Movements for the year, excluding accrued interest

(in EUR million)	Total
AS AT 31/12/2018	**163**
Movements of the year:	
• new issues	0
• redemptions	(107)
• translation adjustments	0
• other movements	0
AS AT 31/12/2019	**56**

c. Details of individual subordinated borrowings

Currency	Maturity	Amount in millions	a) Early repayment conditions b) Subordination conditions c) Convertibility conditions	Interest rate (%)
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(1)	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	

(1) Prohibition to pay discretionary coupons on T1 Hybrids following the resolution plan approved by the European Commission on 28/12/2012.

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3.7. Equity

Detailed analysis of equity

(in EUR million)	Amount
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 loss for the year	647
Interim dividends	0
EQUITY AS AT 31/12/2018	**3,279**
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)	647
Legal reserve	0
Non-distributable reserve	0
Translation adjustments	(9)
Dividends paid (-)	0
Net loss for the year	393
Other movements	(647)
AS AT 31/12/2019	
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	617
Translation adjustments	(264)
Net profit for the year(2)	393
Interim dividends	0
EQUITY AS AT 31/12/2019	**3,663**

(1) The Ordinary General Meeting on 14 May 2019 resolved to allocate the EUR 647 million gains for 2018 to retained earnings, bringing the latter to EUR 617 million.
(2) A proposal was submitted to the ordinary shareholders' meeting on 19 May 2020 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 31/12/2019**
In EUR	50,406
In other EU currencies	13,846
In all other currencies	25,114
TOTAL LIABILITIES AND EQUITY	**89,366**

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	33,034	11,319
	Items V, VI and VII	Securities held	14,653	25
	Items XIII and XIV	Other assets and accruals	26,032	263
Liabilities	Items I and II	Interbank borrowings and deposits and customer deposits	11,301	335
	Items III	Debt securities	62,745	0
	Items VIII	Subordinated debt	56	0
	Items IV and V	Other liabilities and accruals	10,868	6

(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 include lines of credit approved but not disbursed as at 31 December 2019.

Analysis by type of beneficiary

(in EUR million)	As at 31/12/2018	As at 31/12/2019
Commitments to credit institutions	815	667
Commitments to customers	1,054	1,180
Currencies lent but not yet delivered	0	0
TOTAL	1,869	1,847

4.2. Guarantee commitments given (item II - off-balance sheet)

a. Analysis by type of beneficiary

(in EUR million)	As at 31/12/2018	As at 31/12/2019
Commitments to credit institutions	1,323	1,703
Commitments to customers	2,040	1,909
TOTAL	3,363	3,612

b. Analysis by type of transaction

(in EUR million)	As at 31/12/2018	As at 31/12/2019
Guarantee commitments given:		
• guarantees	3,363	3,612
• endorsements	0	
• liens on assets	0	
TOTAL	3,363	3,612

c. Contingent liabilities and risks and losses not quantifiable at the date of preparation of the financial statements

Upon completion of these financial statements, there were no contingent liabilities, risks or losses that were not quantifiable.

4.3. Assets pledged as collateral

(in EUR million)	As at 31/12/2018[1]	As at 31/12/2019[1]
As collateral for debts and commitments of the company	0	0
Balance sheet liabilities	0	0
Off-balance sheet items	27,103	26,040
TOTAL	**27,103**	**26,040**

(1) Carrying amount of the assets pledged.

4.4. Financing and guarantee commitments received (item IV and V - off-balance sheet)

These items include all financing commitments and guarantees received from credit institutions, and commitments received on securities and foreign currency borrowings.

(in EUR million)	As at 31/12/2018	As at 31/12/2019
Financing commitments received from credit institutions	4,652	5,676
Currencies borrowed but not yet received	0	0
Guarantees received from credit institutions	1,728	1,635
Guarantees received from local authorities or claims on local authorities acquired as guarantees	2,296	1,853
Other commitments received	9,233	7,471
TOTAL	**17,909**	**16,635**

4.5. Commitments related to securities (item VI - off-balance sheet)

a. Analysis by type of transaction

(in EUR million)	As at 31/12/2018	As at 31/12/2019
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 30.8 billion and the line "Foreign currencies to be delivered" to EUR 30.7 billion as at 31 December 2019.

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 31/12/2018	As at 31/12/2019	Hedging		Trading		Fair value as at 31/12/19
			Micro-hedging	Macro-hedging	Isolated open position	Specialised trading portfolio management	
Foreign currency instruments[(1)]	28,083	30,703	6,796	18,575	0	5,332	(409)
• forward currency purchases and sales	14,339	17,160	0	17,160	0	0	0
• currency and interest rate swaps	13,744	13,543	6,796	1,415	0	5,332	(409)
• 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	259,479	217,271	65,877	39,445	683	111,266	(17,398)
Interest rate instruments[(2)]							
• interest rate swaps	255,884	214,465	64,081	39,445	0	110,939	(17,357)
• futures	508	289	0	0	0	290	0
• forward rate agreements	0	0	0	0	0	0	0
• interest rate options	660	48	10	0	0	37	(108)
Other forward purchases and sales[(3)]							
• other options	2,427	2,469	1,786	0	683	0	67
• *other futures*	0	0	0	0	0	0	0
• other forward purchases and sales	0	0	0	0	0	0	0
TOTAL	**287,562**	**247,974**	**72,673**	**58,020**	**683**	**116,598**	**(17,807)**

(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 31/12/2019
Foreign currency instruments	30,703	0	30,703
Other financial instruments:			
• interest rate instruments	214,802	0	214,802
• other forward purchases and sales	2,469	0	2,469
TOTAL	**247,974**	**0**	**247,974**

c. Analysis of forward contracts and options

Type of transaction (in EUR million)	Forward contracts	Options	Total as at 31/12/2019
Foreign currency instruments	30,703	0	30,703
Other financial instruments:			
• interest rate instruments	214,802	0	214,802
• other forward purchases and sales	1,947	522	2,469
TOTAL	**247,452**	**522**	**247,974**

d. Analysis by residual maturity

Type of transaction (in EUR million)	Up to 1 year	1 to 5 years	Over 5 years	Total as at 31/12/2019
Foreign currency instruments	17,465	4,627	8,611	30,703
Other financial instruments:				
• interest rate instruments	34,124	66,896	113,782	214,802
• other forward purchases and sales	170	219	2,080	2,469
TOTAL	**51,759**	**71,742**	**124,473**	**247,974**

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	1,847	1,224
	Item II	Guarantee commitments given	3,612	1,635
	Item IV	Financing commitments received	5,676	0
	Item V	Guarantee commitments received	10,959	0
	Items III, VI, VII et VIII	Other commitments given and received	305,108	555

(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 31/12/2018	As at 31/12/2019
INTEREST INCOME ON:			
Interbank loans	(a)	256	128
Customer loans and advances	(b)	1,614	877
Bonds and other fixed-income securities	(c)	1,141	1,429
Macro hedging transactions	(d)	953	1,346
TOTAL INTEREST INCOME		**3,964**	**3,780**
INTEREST EXPENSE ON:			
Interbank borrowings and deposits	(a)	(582)	(390)
Customer deposits	(b)	(1,009)	(277)
Bonds and other fixed-income securities	(c)	(882)	(1,070)
Macro hedging transactions	(d)	(1,040)	(1,702)
TOTAL INTEREST EXPENSE		**(3,513)**	**(3,439)**
NET INTEREST EXPENSE		**451**	**341**

a. Interest income and expense on interbank transactions

This item includes EUR 6 million on transactions with related parties.
It also includes an expense relating to the sovereign guarantee amounting to EUR 32 million in 2019 (EUR 33 million in 2018).

b. Interest income and expense on customer transactions

Interest income and expense on customer loans and deposits represented a net amount of EUR 600 million.
It also includes EUR 135 million in income from financing commitments and guarantees.

c. Interest income and expense on bonds and other fixed-income securities

The heading includes EUR 1,429 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 1,070 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 1,346 million and EUR 1,702 million respectively.

5.2. Income from variable-income securities (item III - income statement)

(in EUR million)	As at 31/12/2018	As at 31/12/2019
Related parties[1]	0	160
Other related parties and long-term investments	4	8
Equities and other variable-income securities	0	0
TOTAL	**4**	**168**

(1) The EUR 160 million corresponds to the payment of a dividend by Dexia Kommunalbank Deutschland.

5.3. Analysis of fees and commissions (items IV and V - income statement)

a. Analysis of fee and commission income (item IV - income statement)

Type (in EUR million)	As at 31/12/2018	As at 31/12/2019
Loans	1	1
Other financial services	0	0
TOTAL	**1**	**1**

b. Analysis of fee and commission expenses (item V - income statement)

Type (in EUR million)	As at 31/12/2018	As at 31/12/2019
Loans	0	0
Corporate actions	(8)	(21)
Other financial services	(5)	(4)
TOTAL	**(13)**	**(25)**

5.4. Analysis of gains and losses on portfolio transactions (item VI - income statement)

(in EUR million)	As at 31/12/2018	As at 31/12/2019
Gains (losses) on:		
• held-for-trading securities	7	19
• foreign currency transactions	(20)	(34)
• other financial instruments	(282)	(57)
Sub-total	**(295)**	**(72)**
• available-for-sale and similar securities (1)	251	429
Sub-total	**251**	**429**
• Held-to-maturity securities	**67**	**(67)**
Sub-total	**67**	**(67)**
TOTAL	**23**	**290**

(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 31/12/2018	As at 31/12/2019
• charges to impairment	(462)	(714)
• recoveries of impairment	685	1,299
Sub-total	**223**	**585**
• disposal losses	(654)	(2,113)
• disposal gains	682	1,957
Sub-total	**28**	**(156)**
TOTAL	**251**	**429**

5.5. General operating expenses (item IX - income statement)

a. Detailed analysis

(in EUR million)	As at 31/12/2018	As at 31/12/2019
Personnel costs	**(92)**	**(101)**
• Salaries and wages	(67)	(71)
• Social security	(30)	(27)
• Restructuring cost	5	(3)
Other administrative expenses	**(215)**	**(207)**
• Taxes and duties[1]	(71)	2
• Other administrative expenses	(144)	(209)
TOTAL	**(307)**	**(308)**

(1) The contribution to the resolution fund was included in "taxes and duties" in 2018. As of 2019, it is recorded in "other administrative expenses".

b. Employee Information

	31/12/2018	31/12/2019
Total employee as at 31 December	**554**	**461**
• executive management	47	35
• other management	389	358
• administrative personnel	118	68
Personnel costs (in EUR million)	**(96)**	**(89)**
• salaries and direct benefits	(71)	(58)
• payroll taxes	(20)	(18)
• other personnel costs	(5)	(13)
Provisions for pensions (in EUR million)	**4**	**(12)**
• charges (-)	(2)	(14)
• recoveries (+)	6	2
TOTAL	**(92)**	**(101)**

5.6. Cost of risk (item XI - income statement)

(in EUR million)	Charges and losses	Reversals and recover	Total as at 31/12/2019
Provisions for impairment and losses on loans	(103)	156	53
Provisions for risks	(52)	194	142
Regulatory provisions	0	0	0
TOTAL	**(155)**	**350**	**195**

The cost of risk stands at EUR 195 million in 2019 and is essentially made of:
- specific provision recovers of EUR 54 million on New York topics.
- a loss of EUR -35 million on litigation case, offset by a reversal of provision of EUR 53 million related to desensitization loans.
- a reversal of provision related to the valuation of the DEXIA CREDIOP securities for EUR 90 million.

5.7. Net gains (losses) on non-current assets (item XII - income statement)

	As at 31/12/2018		Total as at 31/12/2018	As at 31/12/2019		Total as at 31/12/2019
(in EUR million)	Affiliated entreprises	Others		Affiliated entreprises	Others	
Charges to impairment(1)	0	0	0	(120)	0	(120)
Recoveries of impairment(2)	504	0	504	289	0	289
SUB-TOTAL	**504**	**0**	**504**	**169**	**0**	**169**
Disposal losses(3)	0	0	0	(450)	0	(450)
Disposal gains	24	0	24	0	1	1
SUB-TOTAL	**24**	**0**	**24**	**(450)**	**1**	**(449)**
TOTAL	**528**	**0**	**528**	**(281)**	**1**	**(280)**

(1) Impairment of the Dexia Crediop participation following the capital increase.
(2) The amount of EUR 289 million corresponds to the reversal of provision on Dexia Kommunalkredit Deutchland AG securities.
(3) Capital loss on the sale of Dexia Kommunalbank Deutchland AG of EUR -450 million.

5.8. Other banking income and expenses

a. Other banking income (item VII - income statement)

(in EUR million)	As at 31/12/2018	As at 31/12/2019
Other banking income	0	1
Other miscellaneous income	0	2
TOTAL	**0**	**3**

b. Other banking expenses (item VIII - income statement)

(in EUR million)	As at 31/12/2018	As at 31/12/2019
Other banking expenses	0	0
Other miscellaneous expenses	0	0
TOTAL	**0**	**0**

5.9. Non-recurring items (item XIII - income statement)

(in EUR million)	As at 31/12/2018	As at 31/12/2019
Non-recurring income(1)	11	2
Non-recurring expenses	0	0

(1) Reimbursement of insurance relating to claim compensa tions in 2018.
In 2019, it is a liquidation bonus on the GIE Jeunes Bois topic.

5.10. Corporate income tax (item XIV - income statement)

a. Analysis of tax expense

(in EUR million)	As at 31/12/2018	As at 31/12/2019
Corporate income tax(1)	(3)	(33)
Deferred taxes	1	1
TAXES ON NET INCOME FOR THE YEAR (A)	**(2)**	**(32)**
Provisions for tax litigation(1) (B)	0	55
TOTAL (A) + (B)	**(2)**	**23**

(1) The reversal of the provision relates to a tax dispute in 2013, for which the charge appears in 2019 in "Corporate income tax" and a part of the tax control has been abandoned by the tax authorities.

In 2019, 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 31/12/2018	As at 31/12/2019
REGULATORY PROVISIONS	**0**	**0**
Provision for medium - and long-term loans	0	0
Provision for investments	0	0
ACCELERATED TAX DEPRECIATION	**0**	**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	3
Board of Directors	0
TOTAL	**3**

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

	As at 31/12/2019		
(in EUR million)	Net banking income (loss)	Gross operating income	Net income (loss)
France	468	197	(320)
Foreign branches	310	256	713
TOTAL	**778**	**453**	**393**

6. Subsidiaries and equity investments as at 31 december 2019

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)				
(en EUR)				
Dexia Crediop Via Venti settembre N. 30 I00187 Roma	570,210,000	372,403,124	(89,040,031)	(129,332,227)
Dexia Holdings INC.(1) 445 Park Avenue, 7th floor NY 10022 New York	2,351,534,355	(2,439,572,493)	797,682	132,599
Dexia Flobail 1 Passerelle des Reflets - Tour Dexia La Défense 2,92913 La Défense	197,100,166	(168,574,213)	(2,099,265)	(1,117,783)
Dexia CLF Régions Bail 1 Passerelle des Reflets - Tour Dexia La Défense 2,92913 La Défense	7,625,000	23,438,935	3,808,101	2,433,967

(1) Companies that produce financial statements only under IFRS.

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				
99.57%	701,223,585	0	0	4,947,005,084	1,189,303,907	Bank, credit institution
100.00%	2,283,076,144	0	0	111,338,737	0	Holding company
100.00%	197,111,054	197,111,054	0	238,935,128	888,628,028	Lease financing of local investments
100.00%	7,941,401	7,941,401	0	363,180,470	222,609,008	Real estate leasing
	1,317,717	237,496	0	232,058,718	2,643,650	
	2,812,977	476,022		0	0	
	8,591,147	4,574,466	219,832	175,264,813	11,236,203	
	0	0	0	0	0	

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For the year ended December 31, 2019

To the shareholders' meeting of Dexia Crédit Local,

Opinion

In compliance with the assignment entrusted to us by your annual general meeting, we conducted our audit of Dexia Credit Local financial statements, for the year ended December 31, 2019. These accounts were approved by the Board of Directors on March 31, 2020 based on the information available at that date in the context of an evolving health crisis linked to Covid-19.
In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company and of the results of its operations for the year then ended in accordance with French accounting principles.
The following audit opinion is consistent with our 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 audit opinion.
Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Financial Statements" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2019 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in the French Code of ethics ("Code de déontologie") for statutory auditors.

Justification of Assessments – Key Audit Matter

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code relating to the justification of our assessments, we inform you of the following assessments that, in our professional judgment, were of most significance in our audit of the financial statements of the current period.
These matters were addressed in the context of our audit of the financial statements, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

<table>
<tr><th colspan="2">The ability to continue as a going concern used for the preparation of the financial statements
(We refer to the note 1.2 and 1.3 in the notes to the Financial Statements)</th></tr>
<tr><th>Key Audit Matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>The Group's ability to continue as a going concern is based on the revised orderly resolution plan of the Dexia Group, approved by the European Commission on 28 December 2012.
This plan, further reassessed by the Board of Directors of Dexia of 19 December 2019, is based, among others, on the following assumptions:
– the macro-economic assumptions underlying the business plan are revised as part of the biannual 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 incorporates observable market data as at 30 June 2019, as well as the non-renewal, as from 1 January 2019, of the specific approach deployed by the European Central Bank for the supervision of the Dexia Group;
– the business plan assumes the preservation of the banking license of the various entities composing the Group and of the credit rating of Dexia Credit Local;
– the continuation of the resolution plan assumes that Dexia Group maintains a sound funding capacity, which relies in particular on the appetite of investors for the debt guaranteed by the Belgian, French and Luxembourg States as well as on the Group's capacity to raise secured borrowings;
– the renewal of the guarantee by the Belgian and French States, as from the 1st of January 2022, in accordance with the approval of the European Commission, dated September 27, 2019;
– finally, the Group 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 significantly the business plan;

The assessment of all the elements supporting the business plan must also be made in the particular context of the current health crisis linked to the spread of the Covid-19 coronavirus throughout the world and particularly in Europe, as mentioned in the note 1.2 to the consolidated financial statements.
In summary, there are still uncertainties, as of today, regarding the realization of the business plan supporting the continuity of the Group's operations over the duration of the resolution.
However, at this stage, these uncertainties do not call into question the fundamentals of the resolution, which justifies the preparation of the consolidated financial statements on a going concern basis, in accordance with IAS 1.
Considering all of the elements presented above, we consider the assessment of the application of the going concern assumption used for the preparation of the consolidated financial statements as of December 31, 2019 as a key audit matter.</td>
<td>We have examined the latest assessment made by the Audit Committee and the Board of Directors of the Dexia Group of the Group's ability to continue as a going concern over a period of twelve months starting at the closing date of the financial year, as prescribed by IAS 1 – "Presentation of Financial Statements", as well as the elements used to justify the assessment and the underlying documentation:
We have applied, amongst other, the following diligences prescribed by IAS 570 "Going Concern":
– through discussion with management and based on the documentation made available to us, we have assessed the elements on which the 24 months-term liquidity projections were based by Dexia;
– we have considered the main regulatory ratios as of December 31, 2019 (Liquidity Coverage Ratio, Common Equity Tier 1) in light of the requirements applicable at that date to the Dexia Group.
– we have inquired of the Audit Committee and Board of Directors about the latest underlying assumptions to the revised business plan, based on end of June 2019 data and validated by the Board of Directors on December 19, 2019. As indicated in note 1.3, there are currently uncertainties surrounding the realization of this business plan which, in addition to the macro-economic factors, relate in particular to:
• the conditions to access the facilities of the Eurosystem financing facilities after 2021;
• the existence of new accounting or prudential rules not known to date by the Management of Dexia Group;
• the long-term organizational and legal structure of the Dexia Group.
– we have considered the quarterly reports on the (i) funding strategy and (ii) operational continuity, prepared by Dexia Group as requested by the European Central Bank;
– Concerning the health crisis related to the Covid-19 coronavirus, we have taken note of Management's assessment on its effects on the operational continuity of Dexia Group as of the date of closing the financial statements, and in particular on liquidity and solvency. We have also reviewed the information disclosed, in this respect, in the notes to the financial statements relating to events after closing date.

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.</td></tr>
</table>

Operational risks linked to information systems *(We refer to the note 1.1 in the notes to the Financial Statements)*	
Key Audit Matter	**How our audit addressed the key audit matter**
As a banking group, Dexia is dependent, for its operational activities, on the reliability and security of its information systems. The activities of the Group takes place 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. In this context, and in order to ensure operational continuity, Dexia Group has outsourced its IT function (development, production and infrastructure) and back offices to an external service provider. Dexia Group has also decided, since the 2018 financial year, to entrust the upgrade and management of the IT infrastructure to the same service provider. In this specific context, the management of operational risk related to the performance of the information systems and the automated treatment of accounting and financial information is considered as a key audit matter.	The assessment of the general IT controls used throughout the accounting and financial information processing chains is a key step in our audit approach. The audit work performed, some of which was carried out directly at the external service provider, with the assistance of our IT specialists, consisted of: – understanding the structure of the IT landscape and the processes and controls related to the production of the accounting and financial information; – examinating the way Dexia Group 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 and automated reconciliation applications 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 supervision framework currently developed by Dexia Group related to the key 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.

Identification and quantification of credit risk *(We refer to the note 1.3, 2.3, 2.4, 3.5, 5.6 in the notes to the Financial Statements)*	
Key Audit Matter	**How our audit addressed the key audit matter**
Dexia Crédit Local is exposed to credit risk due to the inability of its clients to meet their financial obligations. Once there is an objective evidence of impairment, the risk is translated in the accounts by the recording of impairments on the related assets and by the recording of provisions on the related off-balance sheet commitments. Firstly, Dexia Crédit Local determines specific impairments and provisions based on an estimation of the individual risk of non-recoverability and of the loss given default. In addition, for assets portfolios considered as sensitive, placed on watch list and on which no specific impairment is recognized, or for assets with an identified incurred sectorial risk, a collective impairment is estimated. The collective impairments are determined based on statistical models including professional judgment in the different stages of the calculation, especially for the definition of homogenous assets portfolios and for the determination of the risk parameters used in the impairment models. As of December 31, 2019, the gross amount of impaired doubtful and doubtful debts amounted to EUR 478 million, specific impairments to EUR 127 million and collective provisions to EUR 43 million. Finally, the cost of risk of Dexia Credit Local is a product of EUR 195 million. We considered that the assessment of the credit risk and the evaluation of the depreciations constituted a key point of our audit because the provisions and depreciations are significant with regard to the accounts taken as a whole, and call on the judgment of the management, both to identify the outstanding amounts concerned and to determine the amount of provisions and depreciation recognized.	We have reviewed the adequacy of the control process related to credit risk and tested the operating effectiveness of the key controls implemented by the management. The key controls are related to the identification and monitoring of loans and advances to be impaired and of already impaired or restructured loans, to the compliance with the accounting principles defined by Dexia for the estimation of impairments, to the quality and the traceability of the data, to the calculations and to the data-flow from the management and risk systems to the accounting system. For the performance of our audit work on the impairments and provisions at the closing date, we have taken into consideration the materially significant single outstanding exposure and/or the most materially significant assets portfolios subject to professional judgment by Dexia during the determination of the impairments and provisions. The tests include amongst others: – the identification of single files with objective evidence of credit risk (so called « sensitive » files): for a selection of files deemed as sound by the management, we have assessed the level of credit risk; – the estimation of the specific individual impairments: we have assessed, for a sample, the assumptions retained by the management in the estimation of the recorded impairments; – the estimation of collective impairment we have assessed the relevance of methodologies used, more specifically the aggregation of assets with similar exposures, the relevance of the data used, and their correct application in the calculation. We have also examined the information presented in the notes to the Financial Statements on the credit risk.

Valuation of financial instruments *(We refer to the note 1.3, 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. As of December 31, 2019, financial instruments represented EUR 247.9 billion off-balance sheet, and bonds and other fixed income securities EUR 14.3 billion on the assets side of Dexia Credit Local's balance sheet. Due to the significant nature of the outstanding amounts and the use of judgment to determine the market value, we consider that the valuation of financial instruments constitutes a key point of the audit, regarding instruments whose valuation requires the use of 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 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 models over time; – 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 used; – the independent validation of valuation models. We have assessed the methods of calculation used for calculating and exchanging collateral on financial derivatives and we have analyzed the main differences in valuation 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 note 1.3 and 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 characteristics of the hedged item, of the hedging instrument, and of the type of hedging relationship designated; – the justification of the purpose of hedge accounting by the performance of efficiency quantitative testing aiming at supporting the hedging relationship. As of December 31, 2019, the notional off-balance sheet hedging derivatives amounted to EUR 130,693 million. Due to the significant nature of these commitments recognized in the annual accounts, we consider that the documentation and the effectiveness of the hedging relationships is a key point of the audit.	We have assessed the design of the internal control system and the governance related to the documentation and the effectiveness testing of the hedging relationships. In our audit work we have focused on: – the documentation of the hedging relationships; – the identification of the hedged portfolios and hedging instruments; – the process to perform the effectiveness tests supporting the hedging relationships designated over time; – the principles of derecognition of hedging relationships. Our work on the outstanding relationships at closing date focused on the following: – the reconciliation of the outstanding amounts per management accounting with the outstanding amounts per financial accounting; – the review of the effectiveness tests and the recording of the related inefficiency; – the analytical review of the change in OIS/BOR inefficiency over the year. We have involved our experts to review, on a sample basis, the relevance of the methodologies and the quality of 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 participation interests in affiliated companies *(We refer to the note 1.1, 1.3, 2.7 and 5.7 in the notes to the Financial Statements)*	
Key Audit Matter	**How our audit addressed the key audit matter**
Securities, other long-term securities and shares in affiliated companies are recognized in the balance sheet of Dexia Credit Local for a net book value of EUR 210 million. They are recognized individually at the lower of their acquisition value or their use value, which depends on the usefulness of the participation for Dexia Credit Local. The value in use represents what the company would agree to pay out to obtain these shares if it had to acquire them, considering its holding objective. It is mainly determined using a method of discounting future cash flows. When the value in use of the securities is lower than the net book value, an impairment is then created, equal to the amount of the difference. In the case of an event of a negative value in use, Dexia Crédit Local then assesses the need to write down the receivables attached to the investment, or to set up an additional provision for risks and charges up to its commitments. Given the importance of equity securities, other long-term securities and shares in companies linked to the balance sheet, the sensitivity of the models used to variations in the data and assumptions on which the estimates are based, we have considered the evaluation of these titles as a key point of our audit.	Our work mainly consisted in: – Assessing, based on a sample, valuation methods, as well as quantitative data used by the management to determine the value in use. – Assessing the performance of the discount rate used; – Testing the accuracy of the calculation method used by the company to determine the value in use. Finally, we have examined the information related to equity securities, other long-term securities and shares in affiliated companies published in the appendix to the annual accounts.

Specific Verifications

We have also carried out, in accordance with professional standards applicable in France, the specific verifications required by legal and regulatory texts.

Information given in the management report and in the other documents on the financial situation and the annual accounts addressed to the shareholders

We have no matters to report regarding the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors dated March 31, 2020 and in the other documents addressed to the shareholders with respect to the financial position and the financial statements, with the exception of the point below:

– The sincerity and consistency with the annual accounts of the information relating to the payment periods mentioned in article D.441-4 of the French Commercial Code call for the following observation from us: as indicated in the management report, this information do not include banking and related operations, your company considering that they do not fall within the scope of the information to be produced.

Regarding the events which occurred, and the elements known after the date of closing of the accounts relating to the effects of the health crisis linked to Covid-19, the management informed us that they will be the subject of a communication to the shareholders 'meeting called to approve the accounts.

Information related to company governance

We certify that the information required by Article L.225-37-4 of the French Commercial Code has been included in the section of the Board of Directors' management report devoted to corporate governance.

Information resulting from other legal and regulatory obligations

Appointment of the Statutory Auditors

We were appointed statutory auditors of Dexia Credit Local by the shareholders 'meeting of May 16, 2008 for the firm Deloitte & Associés and June 28, 1996 for the firm Mazars.
As of December 31, 2019, Deloitte & Associés was in the 12th year uninterrupted engagement and Mazars in its 24th year.

Responsibilities of management and those charged with governance in relation to the annual accounts

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.
The Audit Committee is in charge of the financial reporting process and monitoring the effectiveness of the internal control and risk management systems and, where applicable, the internal audit with respect to concerns procedures relating to the preparation and processing of accounting and financial information.
The annual accounts have been approved by the Board of Directors.

Responsibilities of the statutory auditors relating to the audit of the annual accounts

Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
As specified in Article L. 823-10-1 of the French Commercial Code, our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of your Company.
As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:
• Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
• Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
• Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements.
• Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
• Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit to the audit committee a report which presents the scope of the audit work and the work program implemented, as well as the conclusions arising from our work. We also bring to its attention, where applicable, the significant weaknesses in internal control that we have identified with regard to the procedures relating to the preparation and processing of accounting and financial information.

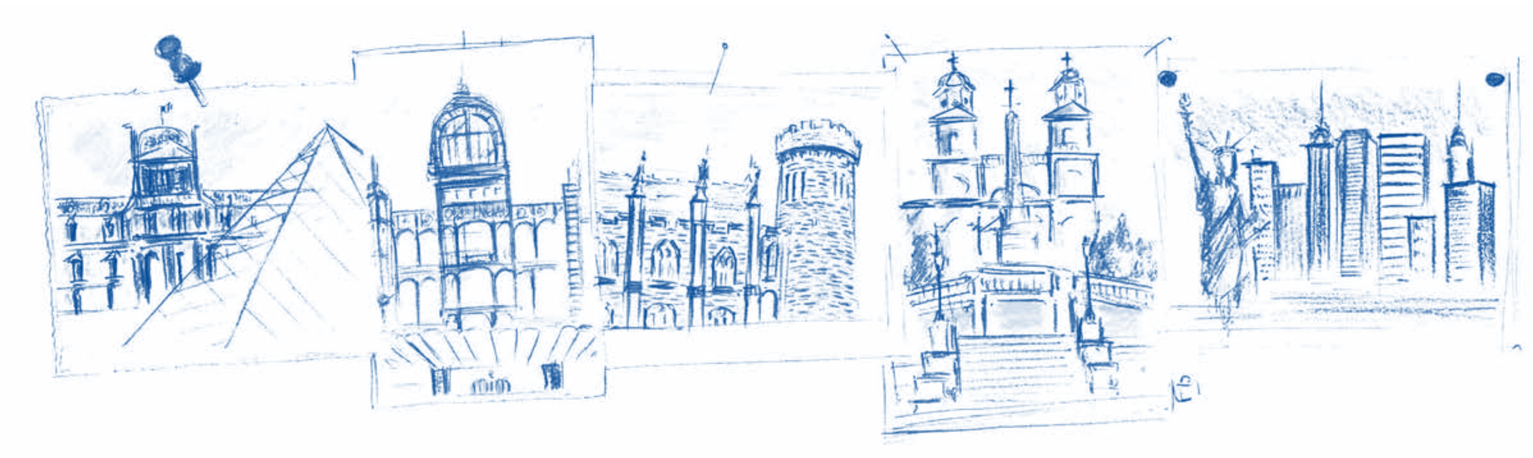
We describe risks of material misstatement that we consider the most significant to financial statements audit for the year ended December 31, 2019 and which therefore represent key audit matter in this report.

We also provide to the Audit Committee the declaration provided by Article 6 of Regulation (EU) No 537-2014 confirming our independence, according to the French standards as determined by Articles L. 822-10 to L. 822-14 of the French Commercial Code. When appropriate, we discuss with the audit committee risks related to our independence.

Paris La Défense and Courbevoie, April 10, 2020

French original signed by the statutory auditors

DELOITTE & ASSOCIÉS	MAZARS	
Jean-Vincent COUSTEL	Virginie CHAUVIN	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 Com-mercial 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 develop-ment and housing schemes, or which have entered into an agreement with a local govern-ment 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 busi-ness 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 authorized 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 meet-ing 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 consul-tation by shareholders are prescribed by law and all applicable regulations. **Right to attend shareholders' meetings** All shareholders are entitled to attend shareholders' meetings upon presentation of proof of identity, provided that their shares are fully paid-up. Shareholders may choose to be represented by another shareholder. Proxies should be filed at the registered office at least five days before the shareholders' meeting. **Voting rights** Shares carry voting rights based on the proportion of capital represented. Each share entitles the owner to one vote. Each person present at the shareholders' meeting is entitled to exercise one vote for each share held and for each share for which he or she holds a proxy.
Place where Company's legal documents may be viewed	All documents and information concerning the Company may be consulted at its registered office. Please address any requests to: Bart Bronselaer, Chief Executive Officer *ad interim*
Responsibility for information	Véronique Hugues, Executive Vice-President (+33 1 58 58 69 39).

2. Outlook[1]

Recent events	Since its entry into orderly resolution in 2011, Dexia Crédit Local has been implementing a proactive strategy of reducing business and the balance sheet through the sale of its com-mercial franchises and asset portfolios. The year 2019 represents an important stage in this dynamic, in particular because of the conclusion of the sale of Dexia Kommunalbank Deutschland (DKD), its subsidiary in Germany, the closure of DCL Madrid and the launch of the project to transform the US branch of Dexia Crédit Local (DCL New York) into a repre-sentative office. In addition, in May and July, the Group Dexia took structuring decisions on two new asset disposal programmes which contributed to a sharp reduction of the bank's balance sheet and liquidity requirements without deteriorating its solvency ratios. Dexia Crédit Local took advantage of favourable market conditions, particularly in the United States, to implement this strategy, which will continue into 2020.
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 abovemen-tioned 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 27 and 28 of this annual 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 macroeco-nomic 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 annual report

The person responsible for the Dexia Crédit Local registration document (document de référence) is:
Bart Bronselaer, Chief Executive Officer *ad interim* of Dexia Crédit Local.

Declaration of the person responsible for the annual financial report

I the undersigned, Bart Bronselaer, Chief Executive Officer *ad interim* of Dexia Crédit Local,

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 annual report 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.

La Défense, 29 April 2020

Bart Bronselaer
Chief Executive Officer *ad interim*

Dexia Crédit Local's annual financial report 2019 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 annual report,
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.com

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Nanterre trade register 351 804 042
VAT: FR 49 351 804 042

DEXIA
CRÉDIT
LOCAL
DCL