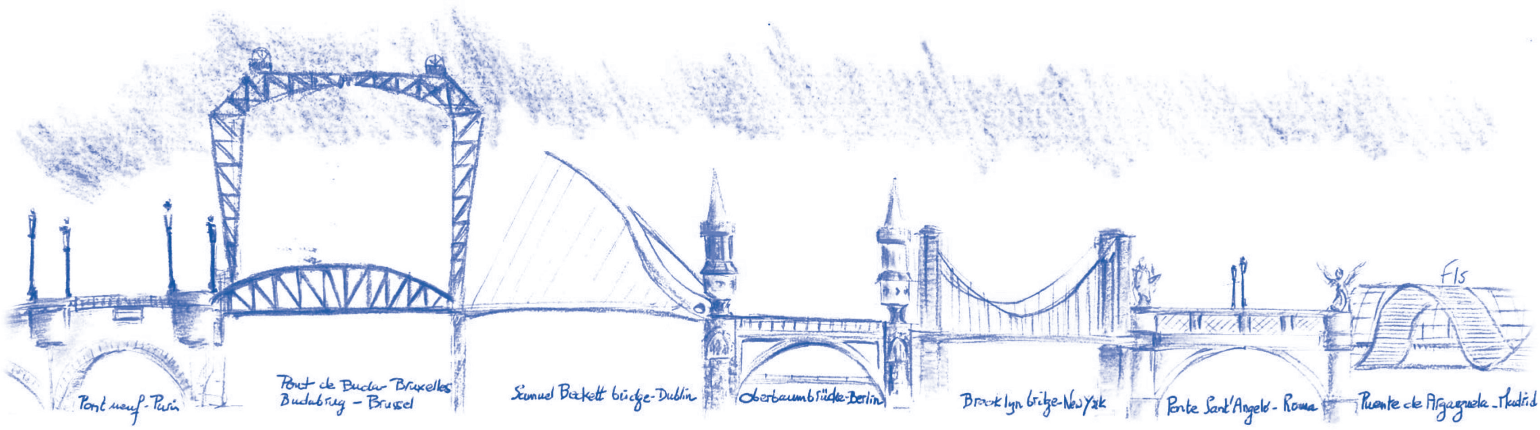
2018

ANNUAL REPORT

DEXIA



Annual report 2018

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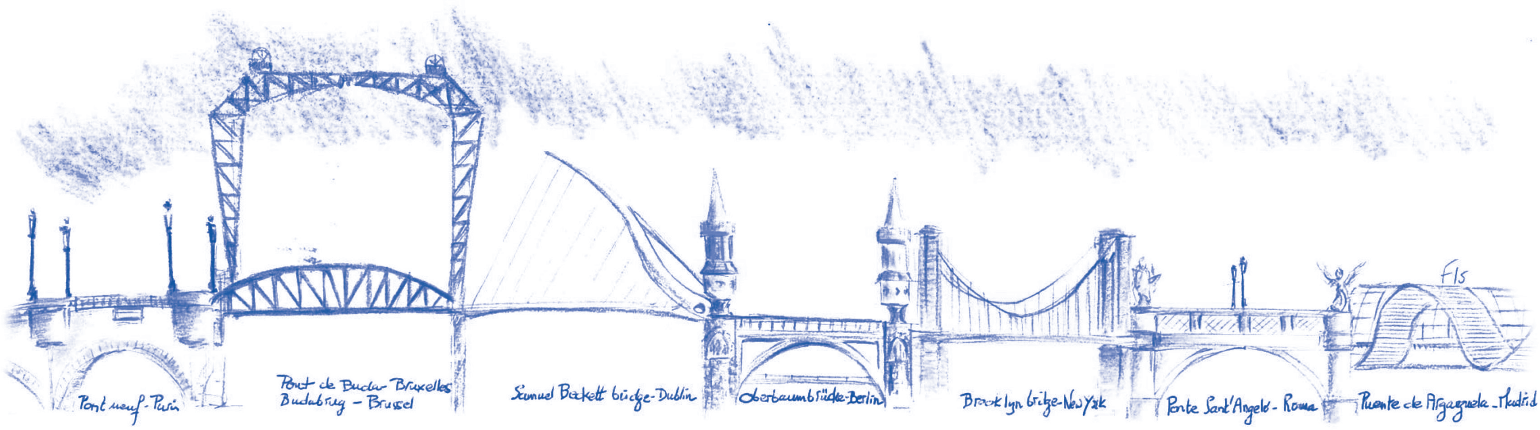


Management report

Message from the Chairmen

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

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

The intensification of our balance sheet reduction strategy resulted in a significant decline in the asset portfolio, by EUR 14 billion over the year. Asset sales in 2018 included securities to the US public sector and loans to the French public sector, Spanish covered bonds and ABS on US student loans or exposures related to the Japanese sovereign and local public sector. In terms of risk reduction, we focused our efforts on managing files with significant provisions, transferring almost all of our exposure related to the Commonwealth of Puerto Rico. These transactions have led to a significant reduction in the size of our balance sheet, which fell by 14% over the year to EUR 159 billion.

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

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

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

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

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

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

Wouter Devriendt
Chief Executive Officer

Gilles Denoyel
Chairman of the Board of Directors

Group profile

A Group in orderly resolution

Dexia[1] is a European banking group managed under an orderly resolution plan since the end of 2011. The Belgian and French States own 99.6% of the Group[2].

Dexia's orderly resolution plan, which was approved by the European Commission in December 2012, aims to avoid the Group's bankruptcy and liquidation which, given the Group's residual size, could have been destabilising to the entire European banking sector.

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

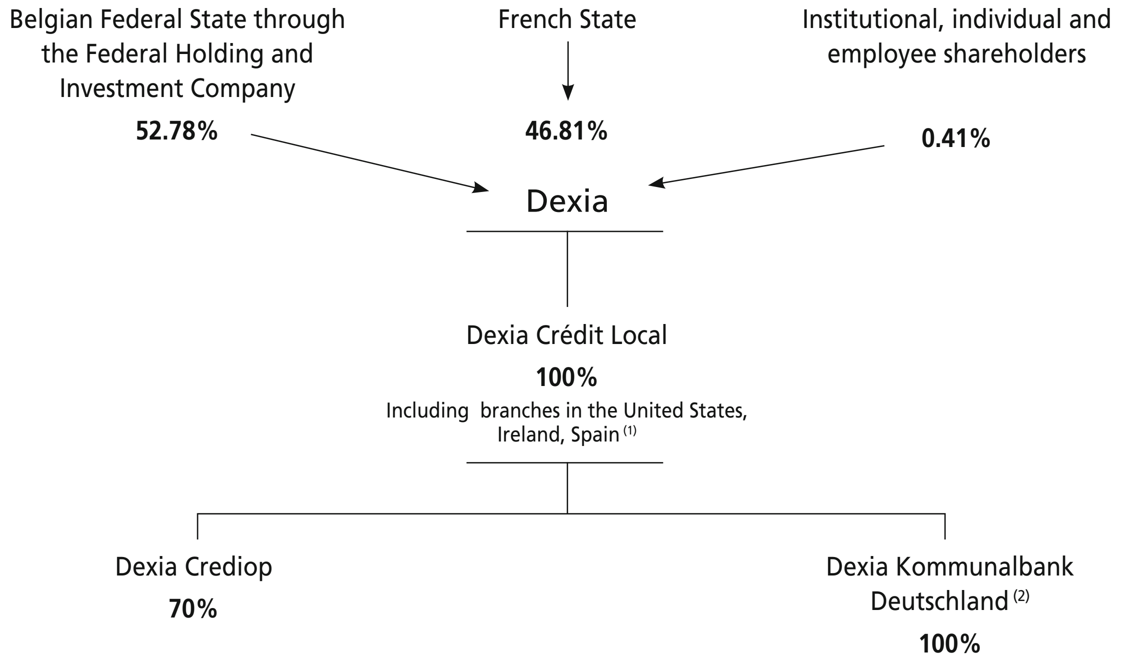
The Group has 773 members of staff as at 31 December 2018. Dexia Crédit Local is the Group's main operating entity and benefits from a funding guarantee, up to a maximum amount of EUR 85 billion, provided by the States of Belgium, France and Luxembourg, to allow for the execution of the orderly resolution plan. Dexia Crédit Local is based in France, where it holds a banking licence, with branches in Ireland, the United States and Spain[4], and subsidiaries in Germany[5] and Italy. These entities also hold local banking licences.

Dexia 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, the Group has 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.

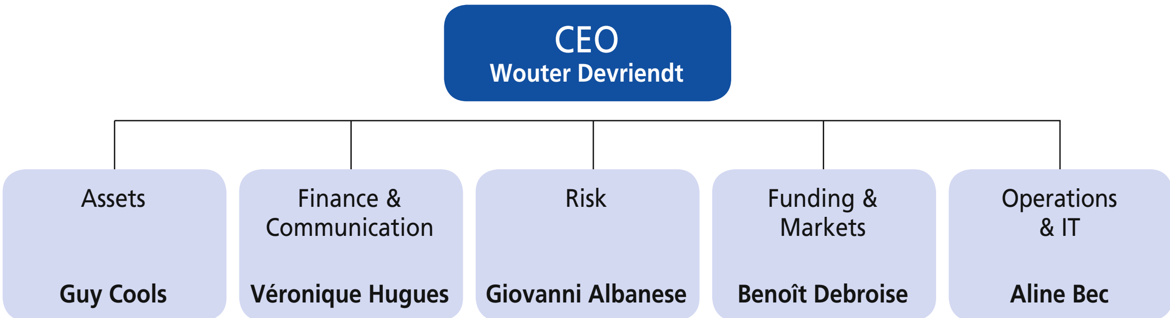
(1) Throughout this annual report, Dexia refers to Dexia SA/NV and Dexia Crédit Local refers to Dexia Crédit Local S.A.
(2) In 2012 the Belgian and French States increased Dexia's capital with EUR 5.5 billion.
(3) Regulation (EU) No. 468/2014 of the European Central Bank of 16 April 2014.
(4) The closure of Dexia Crédit Local's Madrid branch is expected for 29 March 2019.
(5) On 14 December 2018, Dexia and the German banking group Helaba signed a share and purchase agreement concerning Dexia Kommunalbank Deutschland, Dexia Crédit Local's subsidiary; cf. joint press release issued by Dexia and Helaba on 14 December 2018, available at www.dexia.com

Simplified Group structure



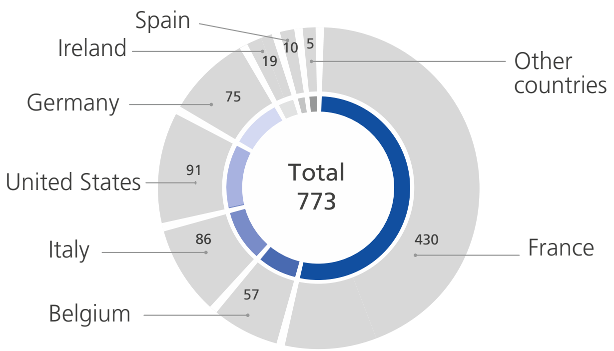
(1) The closure of Dexia Crédit Local's Madrid branch is expected for 29 March 2019.
(2) On 14 December 2018, Dexia and the German banking group Helaba signed a share and purchase agreement concerning Dexia Kommunalbank Deutschland, Dexia Crédit Local's subsidiary; cf. joint press release issued by Dexia and Helaba on 14 December 2018, available at www.dexia.com.

Management Board



Key figures

MEMBERS OF STAFF AS AT 31 DECEMBER 2018



RESULTS (in EUR million)	**2017** [1] **IAS 39**	**2018 IFRS 9**
Net banking income	(123)	(232)
Costs	(392)	(386)
Gross operating income	(515)	(618)
Cost of credit risk	33	128
Result from discontinued operations, net of tax [1]	32	23
Net income Group share	(462)	(473)

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

BALANCE SHEET (in EUR billion)	**31/12/2017 IAS 39**	**01/01/2018 IFRS 9**	**31/12/2018 IFRS 9**
Balance sheet total	180.9	183.7	158.8
Total asset portfolio	94.5	94.5	79.9

SOLVENCY (in EUR million unless otherwise stated)	**31/12/2017 IAS 39**	**01/01/2018 IFRS 9**	**31/12/2018 IFRS 9**
Common Equity Tier 1	6,496	8,635	8,119
Total Capital	6,811	8,846	8,278
Risk-weighted assets	33,351	34,730	30,365
Common Equity Tier 1 ratio	19.5%	24.9%	26.7%
Total Capital ratio	20.4%	25.5%	27.3%

RATINGS AS AT 15 FEBRUARY 2019	**Long term**	**Outlook**	**Short term**
Dexia Crédit Local			
Fitch	BBB+	Stable	F2
Moody's	Baa3	Stable	P-3
Moody's - Counterparty Risk (CR) Assessment	*Baa3(cr)*		*P-3(cr)*
Standard & Poor's	BBB	Stable	A-2
GBB Rating	BBB	Positive	-
Dexia Crédit Local (guaranteed debt)			
Fitch	AA-	-	F1+
Moody's	Aa3	Stable	P-1
Standard & Poor's	AA	-	A-1+
Dexia Kommunalbank Deutschland (*Pfandbriefe*)			
Standard & Poor's	A-	CW Positive	-

Highlights

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

Progress of the orderly resolution plan

Dynamic management of the balance sheet and credit risk

In 2018, Dexia continued and intensified its proactive strategy of reducing the balance sheet. This materialised in an annual reduction of the Group balance sheet total by EUR 24.9 billion, or 14%. The reduction of assets is significant, at EUR 14 billion over the year, of which EUR 7.3 billion related to disposals and EUR 1.1 billion to early redemptions. The natural amortisation of the balance sheet amounts to EUR 5.4 billion.
Asset sales in 2018 related in particular to US public sector securities and French public sector loans, Spanish covered bonds and ABS on US student loans or exposures to the Japanese sovereign and local public sector.
They are characterised by a long residual life of the transferred assets (9.4 years) and by the fact that a significant proportion of these assets was denominated in currencies other than the euro, in particular the US dollar and the yen. This has made it possible to reduce the Group's funding risk in these currencies.
Dexia has strengthened its expertise in the sale of loans. After a first successful transaction in 2017, the Group sold two new portfolios of receivables from the French local public sector following a call for tenders from investors. These sales related to a total outstanding amount of EUR 1.1 billion for a total of 186 loans. The Group also disposed of social housing loans in France, in two tranches, in an amount of EUR 0.8 billion.
As part of its credit risk reduction, efforts were concentrated on the management of heavily provisioned files. In particular, the Group sold almost all of its exposure in relation to the Commonwealth of Puerto Rico[1] and obtained the redemption of debts associated with the Bulgarian railway sector.

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

The Dexia Group's credit portfolio remains globally of good quality with 91% of exposures rated in the investment grade category as at 31 December 2018.
The Group also pays particular attention to the monitoring and management of certain exposures representing a significant concentration risk.
More detailed information is provided in the chapter entitled "Risk management" in this annual report.

Signature of a sale and purchase agreement concerning Dexia Kommunalbank Deutschland

On 14 December 2018[2], Dexia signed with the German banking group Helaba a sale agreement allowing Helaba to buy 100% of the shares in Dexia Kommunalbank Deutschland (DKD) for a total consideration of EUR 352 million.
Dexia Crédit Local, acting through its Dublin branch, will sell its shares in DKD after having obtained all relevant regulatory approvals. The transaction is expected to close during the second quarter of 2019. It will have a non-significant impact on Dexia's solvency and will account for a reduction of approximately 15% of its balance sheet. Detailed financial impacts will be disclosed when the transaction closes.
Pursuant to this transaction, Dexia has also terminated, with effect as of the closing date of the sale, the Letters of Support it had issued to DKD.

Disposal of the 58.9% holding in Dexia Israel Bank

On 18 March 2018, Dexia Crédit Local disposed of all of its shares in Dexia Israel Bank (Dexia Israel). The sale took place at a price of NIS 674 per share and for a total amount of approximately EUR 82 million. This disposal ends Dexia's presence in Israel, where the Group had been active since 2001.
With this sale, Dexia successfully completed the mandatory programme to dispose of its main commercial franchises, as part of the undertakings made by the Belgian, French and Luxembourg States within the framework of the orderly resolution plan approved by the European Commission in December 2012. It therefore marks the end of an important stage in the implementation of Dexia's orderly resolution plan.

Closure of Dexia Crédit Local's Portuguese and Spanish branches

In 2016, from the perspective of simplifying its operational structure, the Dexia Group proceeded with the cross-border merger by absorption of Dexia Crédit Local and its subsidiary

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

Dexia Sabadell as well as the simultaneous creation of two new branches of Dexia Crédit Local in Spain and in Portugal. On 29 June 2018, the Group closed the Dexia Crédit Local branch in Lisbon, after finalising the transfer of assets to its Paris office. The same centralisation work is under way for the Madrid branch, and should enable it to be closed at the latest during the first half-year 2019.

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

Implementation of the service outsourcing agreement, signed between Dexia and Cognizant on 4 October 2017, continued during the first half-year 2018 with the transfer, on 1 May 2018, of the back office market and credit teams to Cognizant. The IT teams were transferred in November 2017. In total, 133 Dexia staff members were transferred under this agreement.
Dexia also chose to entrust the renewal and management of its IT system infrastructure to Cognizant. This transaction was the object of a separate agreement, also for a term of ten years. Its implementation will extend until the end of 2019 and will provide the Group with better-performing IT tools and strengthen operational continuity. On the other hand, it will facilitate the actions taken by Cognizant, which will be able to work in synergy between IT applications and infrastructures.

Evolution of Group governance

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

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

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

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

Recent developments

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

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

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

Financial results

Notes regarding the Dexia Group's annual consolidated financial statements 2018

Going concern

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

• The macroeconomic hypotheses underlying the business plan are revised as part of the half-yearly reviews of the overall plan. The update made on the basis of market data observable as at 30 June 2018 and validated by the Board of Directors of Dexia on 19 December 2018 integrates the regulatory developments known to date, including the final version of the CRD IV Directive. It also takes account of the extremely positive impact on the Dexia Group's regulatory capital of the first-time application of the IFRS 9 accounting standard as from 1 January 2018, with Dexia's Total Capital Ratio at 27.3% at the end of December 2018. Finally it takes account of the non-renewal, as from 1 January 2019, of the specific approach implemented by the European Central Bank for the supervision of the Dexia Group[1].

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

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

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

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

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

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

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

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

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

Analytical segmentation

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

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

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

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

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

Classification as "Discontinued operations"

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

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

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

Classification and valuation of financial instruments

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

Management model

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

Asset characteristics

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

Asset classification

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

Consequence for Dexia

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

Financial asset provisioning model

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

Implementation of the new provisioning model by the Dexia Group

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

Hedge accounting

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

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

Consolidated balance sheet

The first-time application of the IFRS 9 accounting standard is reflected by an increase of the balance sheet total by EUR +2.7 billion as at 1 January 2018, principally due to the cancellation of the frozen AFS reserve.

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

Accounting and prudential equity – solvency ratios

The application of IFRS 9 generates a total positive net impact in the order of EUR 2.7 billion on accounting equity Group share as at 1 January 2018, associated with the asset classification and the implementation of the new provisioning model, partially offset by the adjustment to prudential treatment (EUR -0.6 billion).

Common Equity Tier 1 Capital and Total Capital rise by EUR 2.1 billion and EUR 2.0 billion respectively.

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

As a consequence, Dexia's Common Equity Tier 1 Capital and Total Capital amount to 24.9% and 25.5% respectively as at 1 January 2018 against 19.5% and 20.4% as at 31 December 2017, or an increase of 5.4% and 5.1%.

Dexia decided to opt for transitional provisions[1] enabling it to spread over five years the impact on prudential equity resulting from the implementation of the new IFRS 9 impairment model. This will enable the Group to smooth the effects on the level of impairment of the migration of an asset from one category to another and attenuate any volatility generated by the new impairment model on prudential solvency ratios. In particular, Dexia is sensitive to any change of stage of Italian government debt.

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

ACCOUNTING EQUITY AS OF 1 JANUARY 2018

(in EUR million)

Accounting equity, Group share – IAS 39	**5,402**
Impact of the new credit risk provisioning model	(180)
Impact of the change of accounting classes	419
Cancellation of the premium/discount associated with the reclassification of securities made historically in application of the amended IAS 39	2,485
Other	(5)
Accounting equity, Group share – IFRS 9	**8,121**

PRUDENTIAL EQUITY AS AT 1 JANUARY 201

(in EUR million)	IAS 39	IFRS 9
Accounting equity, Group share	**5,402**	**8,121**
Prudential treatment	1,093	515
Common Equity Tier 1 Capital	**6,496**	**8,635**
Total Capital	**6,811**	**8,846**

SOLVENCY RATIOS AS AT 1 JANUARY 2018

(in EUR million unless otherwise stated)	IAS 39	IFRS 9
Credit risk-weighted assets	31,371	32,750
Market risk-weighted assets	980	980
Operational risk-weighted assets	1,000	1,000
Risk-weighted assets	**33,351**	**34,730**
Common Equity Tier 1 Capital	6 496	8 635
Common Equity Tier 1 Ratio	**19.5%**	**24.9%**
Total Capital	6,811	8,846
Total Capital Ratio	**20.4%**	**25.5%**

Income statement presentation

In order to make the results easier to understand, Dexia has used the following segmentation:

• Recurring elements associated with the carry of assets such as portfolio income, funding costs, operating charges, cost of credit risk and taxes.

• Accounting volatility elements associated with asset and liability fair value adjustments in particular including the impacts of the IFRS 13 accounting standard (CVA, DVA, FVA), the valuation of OTC derivatives, the various impacts relating to financial instruments booked at fait value through profit and loss (in particular non-SPPI assets) and the valuation of derivatives hedging the WISE portfolio (synthetic securitisation of a portfolio of enhanced bonds).

• Non-recurring elements, in particular gains and losses on the disposal of holdings and instruments booked at amortised cost or at fair value through equity, costs and gains associated with litigation, cost and indemnities induced by the exit of projects or contracts, restructuring costs as well as costs associated with Group strategic restructuring projects or exceptional operational taxes.

Analysis of the consolidated income statement

CONSOLIDATED INCOME STATEMENT - ANC FORMAT (in EUR million)	**2017 [1] IAS 39**	**2018 IFRS 9**
Net banking income	**(123)**	**(232)**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	(392)	(386)
Gross operating income	**(515)**	**(618)**
Cost of credit risk	33	128
Net gains or losses on other assets	2	8
Pre-tax income	**(480)**	**(482)**
Income tax	(13)	(40)
Result from discontinued operations, net of tax [1]	32	23
Net income	**(461)**	**(499)**
Minority interests	1	(26)
Net income Group share	**(462)**	**(473)**

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

Over the year 2018, the Dexia Group booked net income Group share of EUR -473 million, quite stable compared to 2017.

Over the year, net banking income was negative at EUR -232 million. In addition to the carrying of assets, this amount in particular includes negative impacts associated with the valuation of derivatives, as well as disposal gains and provisions for legal risk.

Costs amounted to EUR -386 million and included an increase in taxes and regulatory contributions compared to the 2017 financial year.

In total, regulatory taxes and contributions amounted to EUR -105 million as at 31 December 2018 and include in particular the contribution of Dexia Crédit Local and Dexia Crediop to the Single Resolution Fund (EUR -72 million), the tax for systemic risk (EUR -4 million), an exceptional contribution from Dexia Crediop to the Italian national resolution fund (EUR -3 million) and the contribution from Dexia Kommunalbank Deutschland to the Single Resolution Fund (EUR -13 million), recorded under the heading "result from discontinued operations, net of tax" in accordance with the IFRS 5 accounting standard.

Gross operating income amounted to EUR -618 million.

The cost of credit risk or net gains and losses on other assets contributed positively to the result, amounting to EUR +137 million, of which EUR +128 million attributable to the cost of credit risk.

Taking these elements into account, pre-tax income amounted to EUR -482 million.

Over the year, the tax impact amounted to EUR -40 million, including EUR -42 million of deferred taxes related to asset transfers within the Group.

The result from discontinued operations, net of tax, amounted to EUR +23 million and represents the contribution of Dexia Kommunalbank Deutschland to the Group's result.

The income attributable to minority interests amounted to EUR -26 million, leading to net income attributable to the Group for the year 2018 of EUR -473 million.

Analytical presentation of the results for the period

The net income Group share of EUR -473 million is composed of the following elements:

• EUR -210 million attributable to recurring elements;

• EUR -144 million associated with accounting volatility elements;

• EUR -119 million generated by non-recurring elements.

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

ANALYTICAL PRESENTATION OF 2018 RESULTS OF THE DEXIA GROUP

(in EUR million)	Recurring elements	Accounting volatility elements	Non-recurring elements	Total
Net banking income	**45**	**(144)**	**(134)**	**(232)**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	(369)	0	(17)	(386)
Gross operating income	**(323)**	**(144)**	**(151)**	**(618)**
Cost of credit risk	128	0	0	128
Net gains or losses on other assets	0	0	8	8
Pre-tax income	**(195)**	**(144)**	**(143)**	**(482)**
Income tax	(40)	0	0	(40)
Result from discontinued operations, net of tax	0	0	23	23
Net income	**(236)**	**(144)**	**(119)**	**(499)**
Minority interests	(26)	0	0	1
Net income Group Share	**(210)**	**(144)**	**(119)**	**(473)**

Recurring elements

The net income Group share from recurring elements was EUR -210 million as at 31 December 2018, compared to EUR -302 million at the end of 2017.

Over the year, net banking income reached EUR +45 million and reflects the net interest margin, which corresponds to the cost of carrying assets as well as the Group's transformation result. The net interest margin decreased, mainly due to the reduction of the asset portfolio, the deconsolidation of Dexia Israel and the lengthening of funding maturities.

Costs reached EUR -369 million. This amount includes EUR -88 million in regulatory taxes and contributions, in particular including the contribution from Dexia Crédit Local and Dexia Crediop to the Single Resolution Fund (EUR -72 million) and the tax for systemic risk (EUR -4 million). Excluding these taxes and contributions, operating costs amounted to EUR -280 million, down on the previous year, in line with the simplification efforts undertaken by the Group.

The cost of credit risk amounted to EUR +128 million. This strongly positive amount is mainly due to reversals of provisions following the sale of exposures related to the Commonwealth of Puerto Rico and the repayment of a receivable in Bulgaria, as well as the revaluation of provisions on some exposures, in particular the Portuguese sovereign. It is partially offset by the provisioning of the Chicago Board of Education exposure in the fourth quarter of 2018.

The tax amount was EUR -40 million, of which EUR -42 million of deferred taxes related to asset transfers within the Group.

Accounting volatility elements

Accounting volatility elements generated a negative impact of EUR -144 million on the 2018 result.

At the end of December 2018, a charge of EUR -73 million was booked for the Funding Value Adjustment (FVA), which represents the funding cost related to non-collateralised derivatives. The negative impact of the FVA is related to an adjustment in the calculation methodology used by Dexia as well as an increase in the funding cost for the banking sector in the 4th quarter. The Credit Value Adjustment (CVA), an adjustment to the value of derivatives related to counterparty risk, was also negative at EUR -34.8 million due to a widening of credit spreads, particularly on bank counterparties.

Variations in market parameters during the year also had a negative impact on hedging inefficiencies. In particular, the valuation of derivatives was marked by the unfavourable evolution of the BOR/OIS spreads in pound sterling.

Non-recurring elements

Non-recurring elements booked over the year amounted to EUR -119 million and in particular included:

• losses associated with asset disposals and, to a lesser extent, repurchases of liabilities in an amount of EUR -108 million;
• allocations and reversals of provisions for litigation, the net impact of which was EUR -26 million;
• provisions for restructuring costs at EUR -9 million;
• an exceptional contribution from Dexia Crediop to the Italian national resolution fund (EUR -3 million);
• the net impact of the sale of Dexia Crédit Local’s shares in Dexia Israel (EUR +8 million);
• the contribution to the post-tax result of Dexia Kommunalbank Deutschland, in an amount of EUR +23 million[1].

(1) In accordance with the IFRS 5 accounting standard, the contribution from Dexia Kommunalbank Deutschland is isolated in the item “Result from discontinued operations, net of tax,” and fully classified in the analytical segment “non-recurring elements”.

Evolution of the consolidated balance sheet

As at 31 December 2018, the Group's consolidated balance sheet total amounted to EUR 158.8 billion, down EUR -24.9 billion compared to 31 December 2017, adjusted from the first-time application of the IFRS 9 accounting standard, under the combined effect of a dynamic balance sheet management policy and the macroeconomic environment. At EUR 80 billion, the asset portfolio fell by about EUR -14 billion compared to the end of December 2017, of which almost 60% due to asset disposals and early redemptions.

To recall, the first-time application of the IFRS 9 accounting standard was reflected by an increase of the balance sheet total of EUR +2.7 billion as at 1 January 2018, mainly due to the cancellation of the frozen AFS reserve (see section "Impacts of the first-time application of the IFRS 9 accounting standard by the Dexia Group").

Over the year, at a constant exchange rate, the reduction of balance sheet assets is principally attributable to:

- the EUR -14 billion reduction of the asset portfolio, of which EUR -8.3 billion attributable to asset disposals or early redemptions and EUR -5.4 billion to natural portfolio amortisation;
- the fall in fair value of assets and derivatives of EUR -5.5 billion;
- a EUR -2.7 billion reduction of the amount of cash collateral paid by the Group to its derivatives counterparties;
- the sale of Dexia Israel (EUR -2 billion);

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

- a EUR -17.7 billion reduction of the market funding stock;
- a EUR -5.3 billion fall in the fair value of liabilities and derivatives;
- a EUR -2 billion reduction linked to the sale of Dexia Israel.

The impact of exchange rate fluctuations on the annual evolution of the balance sheet is slightly positive, at EUR +0.9 billion.

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

Risk management

Introduction

In 2018, the Risk activity line continued actively to manage the risk carried by Dexia, in line with the Risk Appetite Framework (RAF). This system was enhanced this year and includes new risk indicators for monitoring provisions following the transition to IFRS 9, operational and business continuity risk indicators, related in particular to the implementation phase of the IT services and back offices outsourcing agreement. Its purpose is to define principles for assessing any deviation of the risk profile from the strategic plan approved by the Group's management bodies.
Dexia continued and intensified its proactive strategy of reducing its asset portfolio. The decrease of outstanding is mainly due to natural portfolio amortisation and the sale of assets, partially offset by the impact of the implementation of IFRS 9, in particular the release of the AFS reserve. As part of the reduction of credit risk, efforts were focused on the management of highly provisioned files. In particular, the Group sold almost all of its exposures related to the Commonwealth of Puerto Rico and obtained repayment of receivables related to the Bulgarian rail sector. The reversal of provisions following these disposals, combined with the revaluation of provisions on certain exposures, notably the Portuguese sovereign, to a broad extent explain the positive cost of risk, which was EUR 128 million for the year 2018. In the fourth quarter 2018, the Group also increased its provisioning of exposure to the Chicago Board of Education.
The implementation of the outsourcing agreement signed in early October 2017 with Cognizant resulted in the transfer of IT services in November 2017 and credit and market back offices in May 2018. This partnership with Cognizant marks an important step in securing Dexia's operating model. Outsourced services are closely monitored, in particular by indicators from the Risk Appetite Framework. Dexia has also chosen to entrust Cognizant with the renewal and management of its IT infrastructure under a separate agreement. Its implementation, which is ongoing, will extend over 2019 and is also closely monitored.
As in 2017, Dexia participated in the transparency exercise organised by the European Banking Authority (EBA), the elements and conclusions of which were published at the end of November 2018. The aim of this exercise was to provide detailed and harmonised information on the balance sheets and portfolios of the main European banks.

Governance

Dexia 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 Board of Directors, is responsible for monitoring aspects relating to risk strategy and validation of the level of tolerance of both current and future risk, as defined by the Board of Directors. It assists the Board of Directors in its supervision of the implementation of that strategy.
The Management Board is responsible for implementation of the various policies and directives framing Group strategy, particularly with regard to risk. To facilitate Group operations, a system of delegation of Management Board powers has been put in place.
The Management Board delegates its decision-taking powers in relation:
- to operations giving rise to credit risk to a Transaction Committee;
- to balance sheet management operations to an ALCO Committee;
- to market operations to a Market Risk Committee.

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

More detailed information on the Risk Committee, the Management Board, the Transaction Committee and the ALCO Committee is provided in the chapter "Declaration of Corporate Governance" of this annual report.

Organisation of the Risk activity line

The Risk Management Executive Committee

As at 31 December 2018, this committee consists of the Chief Risk Officer and each department is represented within this committee:

- the Credit Analysis Centres department,
- the Market Risk department,
- the Permanent Control, Operational Risk and IT Systems Security department,
- the Strategic Risk and Regulatory Management department,
- the Credit Models and Default Monitoring department.
- the Comprehensive Risk Assessment department,
- the Governance and Reporting department.

It meets on a weekly basis to review risk management strategies and policies as well as the main internal reports prior to their dissemination outside the activity line. In addition, it is responsible for monitoring regulatory issues, validating collective provisioning methodologies and the general organisation of the activity line.

In particular, the Executive Committee of the Risk activity line is responsible for monitoring models (developments, reviews, back testing, stress testing) on proposals from the teams responsible for the management of risk models, quantification and default monitoring and the market risks team. It regularly informs the Management Board and the Risk Committee of the use of models and, as the case may be, developments and/or difficulties.

The organisation and operation of the activity line also rely on other committees, the prerogatives of which are governed by a system for the delegation of powers, defined in relation to the nature of the risks to which the Group is exposed.

Typology of the risks supervised by Risk Management

Risk Appetite Framework

The Risk Appetite Framework (RAF) is a regulatory requirement which defines Dexia's level of risk tolerance and falls within the implementation of Dexia strategy. It defines the Group's risk profile, and qualifies the types of risk which Dexia is inclined to hold, minimise, attenuate or transfer in order to achieve its strategic objectives. The RAF considers Dexia's significant risks and relies on Dexia's strategy and capital forecasts.

The RAF was introduced in Dexia in 2016. It includes a declaration of risk appetite, qualitative and quantitative risk limits and an overview of the roles and responsibilities of bodies and functions which supervise implementation and monitoring. It is subject to regular monitoring and an annual review in order to integrate any new regulatory, strategic or operational development. A half-yearly consolidated schedule is presented by Risk Management to the Risk Committee and to the Board of Directors, with the aim of close and in-depth monitoring of the main risk indicators and of informing the 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 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 drawn up.

Along with the Risk Committee, the Management Board and the Transaction Committee, the following three committees meet on a quarterly basis:

- The **Watch-list Committee** supervises assets considered "sensitive", placed under watch, and decides on the amount of impairments set aside;
- The **Default Committee** screens and monitors counterparties in default by applying 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 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 quarterly to analyse indicators relating to collateral management, to decide on action plans for significant valuation differences and to monitor the valuation of structured products.

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

Transformation risk

Monitoring transformation risk involves monitoring the risk of loss associated with the transformation of the banking portfolio, as well as liquidity risk. Transformation risk arises when assets are refinanced by resources presenting a different maturity, indexation or currency. It includes structural risks associated with the financing of holdings with equity in foreign currencies. Liquidity risk measures Dexia'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. ALM Risk also defines the stresses to be applied to the various risk factors, proposes the risk acceptance levels and ensures that it complies with the regulatory framework in force.

Operational risk and IT systems security

Operational risk represents the risk of financial or non-financial impacts arising from a shortcoming or failure in internal processes, personnel or information systems, or external factors. This definition includes IT, legal and compliance risks.

The Management Board regularly monitors the evolution of the risk profile of the various 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 committees dedicated to activity continuity and IT systems security, which examine and decide on actions to be taken to guarantee activity continuity and the implementation of a policy for IT systems security.

Operational risk, activity continuity and IT systems security management is coordinated by a central team within the Risk activity line supported by a network of correspondents within all subsidiaries and branches, as well as within 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'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

In 2017, Dexia established the Stress Tests and Pillar II Committee under the joint responsibility of the Finance and Risk activity lines in order to guarantee appropriate governance and consistency in the measurement of the risks of deviation from strategic plans, internal ICAAP and ILAAP processes and to ensure observance of the appropriate requirements.

This committee approves all of these subjects prior to their submission to the Management Board, the Risk Committee and the Board of Directors. It played a full role during 2018, particularly within the context of analyses of the risks of deviation from the strategic plan, the object of exchanges with the European Central Bank within the framework of the SREP.

Risk monitoring

Credit risk

Credit risk exposure

Dexia'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 is given in Note 7 in the Appendix to the consolidated financial statements.

On 14 December 2018, Dexia and the German banking group Helaba signed a sale agreement in relation to Dexia Kommunalbank Deutschland (DKD), the German subsidiary of Dexia Crédit Local. In compliance with the IFRS 5 accounting standard, DKD was classified as "discontinued operations" in the Dexia consolidated financial statements as at 31 December 2018. DKD exposures are therefore presented separately.

As at 31 December 2018, Dexia's exposure to credit risk was EUR 123.6 billion compared to EUR 141.9 billion at the end of December 2017, i.e. down 13%, linked to natural portfolio amortisation, asset disposals and early redemptions.

Exposure was for EUR 61 billion in loans and EUR 54 billion in bonds. It was for the most part concentrated in the European Union (78%) and the United States (12%).

EXPOSURE BY GEOGRAPHIC REGION

(in EUR million)	31/12/2017 (EAD)	31/12/2018 Total	o/w continuing operations	o/w discontinued operations (DKD)
France	28,201	22,271	22,216	54
Italy	23,002	21,883	21,046	837
United Kingdom	22,178	21,114	21,061	53
Germany	17,835	16,714	1,909	14,805
United States	17,483	15,017	14,865	152
Spain	10,136	7,421	7,393	28
Japan	6,152	5,469	5,469	0
Portugal	3,924	4,422	4,187	235
Belgium	1,648	1,936	531	1,406
Canada	2,071	1,882	1,882	0
Austria	1,058	1,023	10	1,014
Central and Eastern Europe(1)	954	889	889	0
Switzerland	357	353	353	0
South and Central America	430	345	345	0
Scandinavian countries	528	218	198	20
Southeast Asia	451	202	202	0
Netherlands	130	106	80	26
Greece	88	78	78	0
Luxembourg	38	49	49	0
Other (2)	5,219	2,249	1,983	267
TOTAL	**141,881**	**123,643**	**104,747**	**18,896**

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

As at 31 December 2018 the majority of exposures remained concentrated on the local public sector and sovereigns (75%), taking account of Dexia's historical activity.

Exposure on France fell following asset disposals concentrated on the local public sector, natural portfolio amortisation and the reduction deposits with the Bank of France by virtue of the liquidity reserve.

EXPOSURE BY CATEGORY OF COUNTERPARTY

(in EUR million)	31/12/2017 (EAD)	31/12/2018 Total	o/w continuing operations	o/w discontinued operations (DKD)
Local public sector	75,621	65,804	49,153	16,651
Sovereigns	29,701	27,081	25,416	1,666
Financial institutions	13,174	10,406	9,849	557
Project finance	11,652	10,299	10,286	14
Corporate	5,807	5,733	5,732	0
ABS/MBS	4,424	2,831	2,822	9
Monolines	1,500	1,488	1,488	0
Individuals, SME and self-employed	1	1	1	0
TOTAL	**141,881**	**123,643**	**104,747**	**18,896**

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

EXPOSURE BY RATING (INTERNAL RATING SYSTEM)

(in EUR million)	31/12/2017 (EAD)	31/12/2018 Total	o/w continuing operations	o/w discontinued operations (DKD)
AAA	21.0 %	19.1 %	18.4 %	23.0 %
AA	14.9 %	17.0 %	8.1 %	66.3 %
A	25.2 %	25.2 %	29.2 %	3.3 %
BBB	29.3 %	29.4 %	33.6 %	6.6 %
Non Investment Grade	8.4 %	7.9 %	9.1 %	0.7 %
D	0.8 %	1.1 %	0 %	0.0 %
Not Rated	0.4 %	0.3 %	0 %	0.0 %
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 2018 are presented in the following paragraphs.

GROUP SECTOR EXPOSURE TO CERTAIN COUNTRIES

(in EUR million)	Total	o/w local public sector	o/w corporate and project finance	o/w financial institutions	o/w ABS/MBS	o/w sovereigns	o/w monolines	o/w discontinued operations (DKD)
France	22,271	9,522	2,581	1,710	0	8,458	0	54
Italy	21,883	8,993	341	282	7	12,260	0	837
United Kingdom	21,114	9,918	8,006	1,131	1,312	61	686	53
Germany	16,714	13,983	126	2,211	0	395	0	14,805
United States	15,017	9,020	879	1,793	1,114	1,409	802	152
Spain	7,421	4,145	1,390	1,124	316	447	0	28
Japan	5,469	4,726	0	722	0	21	0	0
Portugal	4,422	1,532	70	9	15	2,796	0	235
Canada	1,882	922	813	147	0	0	0	0
Poland	556	1	0	0	0	554	0	0
Greece	78	1	77	0	0	0	0	0
o/w discontinued operations (DKD)		*14,321*	*14*	*514*	*0*	*1,315*	*0*	*16,164*

Dexia Group commitments on sovereigns

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

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

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

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

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

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

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

Dexia Group 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 Group's outstanding, principally concentrated in the countries of Western Europe (France, Italy, United Kingdom, Germany, Spain) and in Japan and North America.

France

The quality of 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 2018 was marked by significant sales of loans within the framework of the deleveraging programme (EUR 1.9 billion).

More detailed information on the sales of French local public sector loans are provided in the chapter entitled "Highlights" in this annual report.

Spain

The Spanish State's support to the regions and municipalities continued through the renewal of several financial support funds: EUR 29.9 billion was paid to the regions in 2018, particularly by the Autonomous Liquidity Fund (FLA), against EUR 31 billion granted in 2017. In consideration for such aid, the State control over regional or local finance was increased: the 2018 budgets were drawn up on the basis of a deficit target of 0.4% of GDP. By way of comparison, the deficit was 0.3% in 2017.

Catalonia is one of the main Spanish regions and a major centre of economic attractiveness for Spain, but its financial situation remains tense. It presents negative savings, heavy indebtedness and tight liquidity leading to dependence on short-term refinancing. As a consequence it benefits from support from the State. Following the election of new governments in Catalonia and in Spain, financial control by the Spanish state was raised. The region's finances nonetheless remain subject to control under the FLA. Dexia's exposure to Catalonia was high (EUR 1.8 billion) but no payment incident was recorded, as for the other Spanish regions.

Exposure on the Region of Valencia (EUR 300 million) was significantly reduced in June and July 2018 following maturities falling for EUR 340 million.

United States

The majority of the exposures to the local public sector in the United States relates to States (40%) and local authorities (28%). Like the US local public market, the Dexia portfolio is of good quality and is generally covered by monolines.

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

In 2018, Dexia remained extremely vigilant as to the evolution of the US public sector, in particular the financial situation of the Chicago Board of Education (CBOE). This counterparty experienced financial difficulties due to a very high level of indebtedness, an under-financing of its pension funds and the ongoing decline of student registrations. The Group's exposure to the CBOE was EUR 441 million as at 31 December 2018. Approximately 12% of the exposure is covered by credit enhancement by Ambac. At the end of 2018, the provision on the CBOE was increased.

Finally, the Dexia Group sold almost all of its exposures on public enterprises associated with the Commonwealth of Puerto Rico, leading to a residual exposure of EUR 5 million as at 31 December 2018. This exposure is fully covered by a good quality monoline.

Dexia Group commitments to project finance and corporates

The project finance and corporate loans portfolio amounted to EUR 16 billion as at 31 December 2018, down 8% on the end of 2017. This portfolio contracted on the one hand as a result of natural amortisation and certain early redemptions and on the other hand following disposals.

The portfolio consists 64% of project finance[1], the balance being in finance to corporates, commercial transactions or corporate bonds. The portfolio is good quality: 79% project finance and 99% finance to corporates is rated investment grade.

The UK portfolio represents approximately 50% of the project finance portfolio (PPP) and corporates (utilities), and 97% of the exposure is rated investment grade. There is no anticipation of any significant negative short-term impact following Brexit, even in the event of a non-deal departure from the European Union.

Dexia Group commitments to ABS

In 2018, Dexia continued the voluntary reduction of its ABS portfolio. Taking advantage of favourable market conditions, the Group in particular disposed of ABS on US government student loans.

As a consequence, as at 31 December 2018, the Group's ABS portfolio was down 36% compared to 31 December 2017, at EUR 2.8 billion. ABS student loans still represent an important part of the portfolio (EUR 1 billion). A portion of these loans is guaranteed by the US Federal State and present a rather long amortisation profile and a limited expected loss. The balance consists for the most part of residential mortgage-backed securities (RMBS) for EUR 0.4 billion, of which EUR 0.3 billion in Spain.

(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.

The quality of the portfolio remained stable overall with 96% of the portfolio rated investment grade at the end of December 2018, almost all of the tranches in which Dexia has invested being at a senior level.

Dexia Group commitments to financial institutions

Dexia commitments to financial institutions were EUR 10.4 billion as at 31 December 2018.

Dexia's exposure to the Italian banking system was limited to EUR 282 million as at 31 December 2018.

Finally, the evolution of the Deutsche Bank group continues to be monitored carefully given certain negative credit elements such as poor profitability and an uncertain strategic positioning. Dexia's exposure to this group was EUR 0.9 billion as at 31 December 2018.

Dexia Group commitments to monolines

Dexia 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's enhanced bonds benefit from increased trading values and, in some cases, a reduction of capital in view of the credit enhancement provided by monolines.

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

Impairment on counterparty risk – asset quality

The year 2018 was marked by the first-time application of the IFRS 9 accounting standard as at 1 January. Implementation of the new credit risk provisioning model under IFRS 9 was reflected by an increase of impairments by EUR 180 million as at 1 January, of which an allocation of EUR 188 million as collective provisions, offset by a reversal of EUR 8 million of specific provisions (cf. section dedicated to the first-time application of the IFRS 9 accounting standard in the chapter entitled "Financial results" in this annual report.

Dexia's stock of impaired assets was EUR 1,273 million as at 31 December 2018, up EUR 396 million on the end of 2017. Specific provisions allocated were EUR 305 million, up EUR 48 million on 31 December 2017.

ASSET QUALITY

(in EUR million)	31/12/2017 IAS 39	31/12/2018 IFRS 9
Impaired assets[1]	877	1,273
Specific impairments[2]	257	305
Of which Stage 3		299
POCI		6
Coverage ratio [3]	29.3 %	23.9 %
Collective provisions	331	345
Of which Stage 1		5
Stage 2		340

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

This increase of impaired assets and specific provisions is essentially explained by the increase of the provision on the Chicago Board of Education, and the provisioning of a Spanish asset financing and receivables on a French hospital association.
Furthermore, the disposal of several exposures associated with the Commonwealth of Puerto Rico as well as the repayment of debts associated with the Bulgarian railway sector allowed for the reversal of provisions established on those exposures.
As a consequence, the coverage ratio was 23.9% as at 31 December 2018.

As at 31 December 2018, collective provisions were EUR 345 million, of which EUR 5 million of provision stage 1 and EUR 340 million of provision stage 2. The stage 2 provision is established for a little more than one half by provisions on the Portuguese sovereign and on Portuguese local authorities following downgrades of rating since origin.
The increase linked to the first application of IFRS 9 is partially offset by:
• the natural amortisation of assets over the year;
• the continuation of disposal programmes particularly on French public sector outstanding;
• the evolution of exchange rates.

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

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

Market risk

Risk measurement

The Dexia 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 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 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 trading portfolio is composed of two groups of activity:
• Transactions initiated by financial instrument trading activities until the date on which the Group was placed in orderly resolution, mostly covered back-to-back;
• Transactions intended to hedge risks arising from disinvestments or asset sales within the framework of the orderly resolution plan.
The main risk factors of the trading portfolio are:
• Interest rate risk, in particular on the euro zone and the dollar zone;
• Cross currency basis swap risk;
• Basic risk BOR-OIS in the same currency.
Value adjustments (CVA, DVA, FVA) and their variation are not included in the VaR model but are included in stress scenarios.

Value at Risk (VaR)

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

VALUE AT RISK FROM THE TRADING PORTFOLIO

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

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

With the entry into application of IFRS 9, the sensitivity of the income statement and of the result directly recognised in equity to an increase of the credit spreads evolved both in nature and in magnitude.
Under IAS 39, only the fair value of the portfolio of securities classified as "Assets available for sale" was sensitive to credit spreads, impacting the result directly recognised in equity. This was EUR -10 million as at 31 December 2017.
Under IFRS 9, the portfolio classified at fair value through equity consists of securities and loans and presents sharply reduced sensitivity to an increase of credit spreads. It was EUR -2.8 million as at 31 December 2018 (EUR -2.7 millions excluding discontinued operations – DKD). Furthermore, the portfolio classified at fair value through profit and loss in view of its "non-SPPI" nature, also consisting of securities and loans, presents a sensitivity to an increase of credit spreads of EUR -2.3 million as at 31 December 2018 (EUR -1.9 million excluding discontinued operations – DKD).

Transformation risk

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

Management of interest rate and exchange rate risk

Measurement of interest rate risk

Interest rate risk is measured via sensitivity. Risk sensitivity measures reflect balance sheet exposure to a 1% shift on the yield curve. The main indicator used to determine limits and to measure and monitor risk is the sensitivity of the net present value of accrued interest positions to interest rate fluctuations.
The overall and partial sensitivities by time bucket are the main risk indicators used by the ALM Risk Committee, organised within the ALCO, to manage risk. The Dexia Group's structural interest rate risk is mainly concentrated on European long-term interest rates, and arises from the imbalance between Dexia's assets and liabilities after hedging for interest rate risk.
The sensitivity of long-term ALM was EUR -14.1 million as at 31 December 2018, (EUR -15.2 million excluding discontinued operations – DKD), against EUR +13.9 million as at 31 December 2017. This is in line with the ALM strategy, which seeks to minimise net interest margin volatility.

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

Measurement of foreign exchange risk

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

Management of liquidity risk

Dexia's policy on the management of liquidity risk

Dexia'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 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 operates. It also guarantees proper execution of the funding programmes put in place. To that end, a specific and regular mode of information has been introduced:
• Daily and weekly reports are provided to members of the Management Board, the State guarantors and shareholders and the supervisory authorities. This information is also used by all parties involved in managing the Dexia Group's liquidity position, in particular the Finance and Risk teams in charge of these topics, and the Funding and Markets activity line;
• The twelve-month funding plan is sent monthly to the State shareholders and guarantors, central banks and the supervising authorities;
• Fortnightly conference calls are held with the supervisory authorities and (European, French and Belgian) central banks.

Liquidity risk measurement

In 2015, the European Central Bank (ECB) decided to apply a tailored, pragmatic and proportionate supervisory approach to Dexia, taking into consideration its specific and unique situation of being a bank in resolution. This approach was applied until 2017.
In 2018, this approach was renewed, accompanied by a convergence towards the general supervisory framework, reflected by the strengthening of certain requirements, in particular regarding observance of the Liquidity Coverage Ratio (LCR).
The Dexia Group posted a consolidated LCR ratio of 202% as at 31 December 2018, against 111% as at 31 December 2017, in line with these requirements. This ratio is also respected at subsidiary level, each exceeding the required minimum of 100%.
Furthermore, the ECB informed the Dexia Group that as from 1 January 2019, the approach of specific supervision would not be renewed. As for liquidity, Dexia must therefore observe all the regulatory requirements applicable to banking institutions supervised by the ECB, at every level of the Group consolidation.

Operational risk and IT systems security

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

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

Risk measurement and management

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

The operational risk management system relies on the following components:

• Operational risk database: the systematic capture and monitoring of operational incidents is one of the most important requirements of the Basel Committee. Fulfilling its regulatory obligations, Dexia has put a system in place to list operational incidents and to gather specific data. The information gathered enables it to improve the quality of its internal control system.

• Over the last three years, 99% of losses under the Basel definition originated from the category "Execution, Deliveries and Process Management". The other categories ("Customers, Products and Business Practices", "Failure of Systems or IT Infrastructure" and "External Fraud") represent 45% of the total number of incidents but less than 1% of total losses. Most operating incidents are declared on a failure of a business line process, an incident the direct cause of which is often a failure in the correct operation of IT systems;

The principal incidents are subject to corrective actions approved by the management bodies:

• Risk self-assessment and control: as well as building a history of losses, Dexia's exposure to key risks is determined via an annual risk mapping exercise. All Dexia 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 Operational Risk Committee to monitor the evolution of the principal risks identified in the operational risk mapping.

• Information security management: the information security policy and the associated instructions, standards and practices are aimed at ensuring that Dexia's information 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 plans.

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

Management of operational risk during the period of resolution

In 2018, the Dexia Group continued to adapt its structure and its operational processes to its mandate of orderly resolution. This resolution phase is by its nature propitious to the development of operational risks, particularly from elements such as the departure of key individuals, or changes to treatment processes. In particular, projects to outsource certain activities may represent a source of operational risk during phases of preparation and implementation but are aimed over the longer term at guaranteeing the bank's operational continuity and at limiting the operational risks associated with systems, processes and people.

During the phase of implementing the outsourcing agreement with the service provider Cognizant, outsourcing risks were monitored by the Dexia Risk Management to ensure the proper implementation of operations and risk governance via joint Dexia / Cognizant committees. A specific team was created to check the provision and quality of the services provided by Cognizant, whilst the effective supervision of outsourced activities was realised by the Internal Control of the Dexia and Cognizant entities. In particular, a specific projects programme was launched by Dexia and Cognizant to achieve the objectives defined in the outsourcing agreement regarding IT systems security.

Finally, at Dexia, psycho-social risks are carefully monitored, accompanied by prevention and assistance actions.

More detailed information on the actions taken by Human Resources to mitigate operational risk are provided in the chapter entitled "Non-financial declaration. Corporate, social responsibility" in this annual report.

Stress tests

Stress tests and scenario analyses

In line with the final versions of the EBA *guidelines published in July 2018 – Guidelines on the revised common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing and Guidelines on institutions' stress testing* – and the requirements formulated by the European Central Bank in November – *ECB Guide to the internal capital adequacy assessment process (ICAAP) et ECB Guide to the internal liquidity adequacy assessment process (ILAAP)* – for application as from 1 January 2019, Dexia 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 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 equity of a sudden and unexpected fluctuation of interest rates, to be measured, responding to regulatory expectations;

• Liquidity stress tests enabling additional liquidity requirements to be estimated in exceptional but plausible scenarios at different time horizons up to two years. Their aim is to identify possible vulnerabilities and simultaneously in an adverse shock situation to assess the possible increase of risk-weighted assets, additional liquidity requirements or capital requirements;

• A series of internal transversal stress tests, complementary to and consistent with those of the ICAAP and ILAAP processes, relying on macroeconomic scenarios simulating crisis situations for Dexia for the purpose of internal analyses of capital adequacy and the risks of deviations from the strategic plan. Described in more detail below, they were approved internally and forwarded to the supervisory authorities on various occasions in 2018, in addition to the formal documentation of the ICAAP and ILAAP processes.

More specifically, for regulatory stresses of the ICAAP and ILAAP type, as defined in the EBA guidelines, and in association with reviews of financial plans over multiple horizons, Dexia 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 2018 annual exercise was forwarded to the ECB.

The ICAAP stress tests form an integral part of the bank's reporting system, and its risk appetite framework (RAF), and are incorporated in the definition and review of global strategy. They systematically complete the financial planning process. The link between risk tolerance, adaptations to the strategic plan for resolution and the ICAAP and ILAAP stress tests is also guaranteed by specific consumption and capital adequacy indicators forming part of the RAF.

Litigation

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

On the basis of the information available to Dexia on that date, other disputes and regulatory investigations in which an entity of the Dexia Group is named as a defendant and regulatory investigations impacting the Group entities are either not expected to have a material impact on the Group's financial position or it is too early accurately to assess whether they may have such an impact.

The consequences, as assessed by Dexia in accordance with the information available to it on the aforementioned date, of the principal disputes and investigations liable to have a material impact on the Group's financial position, performance or activities are reflected in the Group's consolidated financial statements.

Dexia Nederland BV

General context

Dexia's Dutch subsidiary, Dexia Nederland BV (hereinafter referred to as DNL), is still facing a major dispute involving several legal proceedings brought by clients who signed share leasing agreements. Over the years, DNL has closed ongoing legal proceedings and disputes with most clients. At the end of 2018, several customers (about 12,500) were still opposing the compensation system resulting from the decisions of the Amsterdam Court of Appeal and the Supreme Court. However, DNL continues to attempt to reduce the number of outstanding claims by entering into out-of-court settlements and asking the courts to confirm that DNL has fulfilled its obligations to the affected customers.

Main issues raised by litigation

Duty of care

As stated in Dexia's previous annual reports, in 2009 the Dutch Supreme Court made a distinction between two categories of customers: those for whom the agreement in question represented an acceptable financial burden and those for whom the agreement represented an unduly heavy financial burden.

Other decisions of the Dutch Supreme Court and the Court of Appeal in Amsterdam clarified the manner in which these cases should be assessed in practice. When an intermediary was involved, the Supreme Court also decided in 2016 that, meeting certain conditions, plaintiffs were authorised to apply for higher compensation. This principle was confirmed again by the Dutch Supreme Court in 2018. The final outcome of the cases in question remains dependent on the ability of the plaintiffs to prove before the courts that certain due diligence obligations have not been fulfilled. Other cases concerning the role of intermediaries and due diligence obligations which have not been fulfilled by DNL are still pending before the Supreme Court of the Netherlands.

Spousal consent cases

As stated in Dexia's previous annual reports, in 2008 the Dutch Supreme Court ruled that written consent is required from the lessee's spouse (or registered partner) when entering into a lease agreement. If such consent is not obtained, the spouse is authorised to cancel the agreement. Other rulings by the Supreme Court have specified that such cancellation must occur within three years following the signature of the agreement or the time when the spouse became aware of the existence of the said agreement, subject to any suspension applicable, and provided that there was an opt-out in accordance with the law intended to facilitate the collective settlement of the pool of damages (*Wet collectieve afhandeling massaschade* – WCAM).

Number of cases still ongoing

As at 31 December 2018, DNL was still involved in some 1,500 civil proceedings (against 1,250 at the end of 2017). They were mainly concerned with questions of the duty of care.
At present, Dexia is unable reasonably to predict the duration and outcome of these proceedings, and their potential financial repercussions.

Klachteninstituut Financiële Dienstverlening (KiFiD)

At the end of 2018, twelve cases related to share leasing were still being considered by the *Klachteninstituut Financiële Dienstverlening* (KiFiD), the Dutch institution tasked with handling complaints concerning financial services. They relate principally to duty of care discussions.

Dexia Crediop

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

Cases concerning hedging transactions

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

Other litigation involving Dexia Crediop

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

Dexia Crédit Local

Dexia Crédit Local (DCL) is involved in a number of cases brought by local authorities to which it had granted structured loans. As at 31 December 2018, 30 clients had issued summonses against DCL in connection with structured loans, of which 16 concern structured loans held by the Société Française de Financement Local (SFIL), parent company of the Caisse Française de Financement Local (CAFFIL). 12 concern structured loans held by DCL and 2 concern both institutions. On 28 March 2018, the French Supreme Court validated the favourable decision of the Court of Appeal in Versailles concerning the structured loans held by CAFFIL and confirmed the validity of those structured loans which were not qualified as "financial and speculative products". The Supreme Court also decided that DCL assumed no liability for the sale of such structured loans.

As explained in previous annual reports, DCL was also summoned concerning loans granted to private law entities and for which the courts continue to annul clauses linked to the interest rate of the loan in view of the absence of reference to the Annual Percentage Rate (APR) in the fax confirmation prior to conclusion of the loan contract.

On 11 August 2018, the Law authorising the government to amend the APR regulations by government order was passed (Article 55.I of the French Law No 2018-727).

In spite of the aforementioned developments, at present DCL is unable reasonably to predict the duration or outcome of the remaining investigations and legal proceedings in progress, or their potential financial repercussions.

Dexia Kommunalbank Deutschland

Dexia Kommunalbank Deutschland (DKD) was also summonsed in a small number of disputes relating to structured loans. One case, in which the loan interest is linked to the exchange rate for the Swiss franc against the euro and which was won by DKD at first instance, is still ongoing following an appeal lodged by the plaintiff. The parties are currently examining the possibility of an agreement.

In two other cases, the holders of profit-sharing rights have proceeded against DKD. In the first case, the decisions passed at first and second instance have been in favour of DKD. In the second case, a first partial judgement was passed at first instance in March 2017, principally in favour of DKD. The appeal proceedings, commenced by the plaintiff, are still ongoing. As for the remaining part of the compensation claim, on which there has not yet been a judgement, the court suggested that the action be withdrawn. However the plaintiff decided to continue and even extended the action. DKD is convinced that the final judgement will be in its favour, considering the jurisprudence relating to similar cases.

Despite the developments explained above, at the present time DKD is unable reasonably to predict the duration or outcome of the remaining investigations and legal proceedings in progress, or their potential financial repercussions.

Alleged shortcomings in relation to financial communication

Dexia was named as a defendant in a small number of civil cases alleging shortcomings in its financial communication. Whilst all those matters have been successfully closed in favour of Dexia, one case is still pending before the Brussels Court of Appeal. Dexia strongly opposes the claims put forward by the plaintiffs and won the case in first instance. In spite of the positive developments, at present Dexia is unable reasonably to predict the duration or outcome of the remaining investigations and legal proceedings in progress, or their potential financial repercussions.

Dexia has also been informed that an investigation was ongoing in Brussels in relation to alleged market abuse. The investigation was formally closed by the prosecutor but additional investigations were required in December 2018. At present Dexia is unable reasonably to predict the duration or outcome of this investigation, or its potential financial repercussions.

Litigation resulting from the disposal of the Group's operating entities

Over recent years, Dexia has implemented its programme of divestment of operating entities.

As is customary in these types of transactions, the share sale agreements in relation to these disposals include representations and warranties, and seller's indemnification obligations subject to the usual restrictions and limitations. Therefore, should a purchaser make a call on the warranty in connection with an issue affecting the purchased entity which originated prior to completion of the sale of the shares in that entity, Dexia may, under the terms of the sale agreement, be required to indemnify the purchaser.

Several applications for compensation have been made in relation to disposals made by Dexia in the past, particularly within the context of the disposals of Banque Internationale à Luxembourg and DenizBank. Dexia nonetheless contests the majority of these claims.

At present Dexia is unable reasonably to predict the duration or outcome of these applications, or their potential financial repercussions.

Information on capital and liquidity

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

Share capital

Information on Dexia's share capital as at 31 December 2018

As at 31 December 2018 Dexia share capital amounted to EUR 500,000,000.
Since the shareholders' meeting held on 7 December 2017, it has been represented by 420,134,302 shares with no par value, each representing 1 / 420,134,302nd of the share capital.
Among these 420,134,302 shares:
• 1,948,984 shares are identified by an ISIN code and listed on Euronext Brussels. These shares are dematerialised or registered. As at 31 December 2018 they consist of 185,793 registered shares and 1,763,191 dematerialised shares. Their holder may, at any time and at their cost, apply for their conversion into registered or dematerialised shares as the case may be;
• 418,185,318 other shares have no ISIN code and are exclusively registered. Their holder may not apply for the conversion of their shares into dematerialised shares. These shares are held by the Belgian and French States.

Conversion of preference shares in 2017

On 7 December 2017, an extraordinary shareholders' meeting[1] approved the proposal to convert the preference shares subscribed in 2012 by the Belgian and French States for an amount of EUR 5.5 billion, and to issue profit shares.
As part of this conversion, all the preference shares issued on 31 December 2012 and held by the Belgian and French States were converted into ordinary shares, at a conversion rate of 14.446 ordinary shares against one preference share. At the same time, profit shares bearing Contingent Liquidation Rights (CLR) were granted to the Belgian and French States. These CLR do not represent the capital of Dexia, but grant the States the right to benefit from a preferential distribution, on the liquidation of Dexia, after settlement of the debts and charges, in an amount of EUR 440 million per annum to count from 1 January 2018 up to the date of liquidation. This right to a preferential distribution in the event of liquidation may only be exercised once, on the occasion of Dexia's liquidation.

(1) Cf. Press Release issued by Dexia on 7 December 2017, available at www.dexia.com.

Le plan de conversion s'inscrit dans le cadre du plan de résolution ordonnée de Dexia, approuvé par la Commission européenne le 28 décembre 2012. Il a été mis en place en vue de se conformer aux exigences de la réglementation bancaire. En particulier, le plan de conversion poursuit le double objectif suivant :
• On the one hand, to ensure the observance by Dexia of its regulatory obligations regarding solvency;
• And on the other hand, to ensure the ongoing observance of the "burden sharing" requirements imposed by the European Commission in its decision dated 28 December 2012 by virtue of the regulations on State aid which, to recall, aim to guarantee that any improvement in Dexia's financial situation will primarily and principally benefit the States[2].
The plan was approved by the European Commission on 19 September 2017[3]. On 27 November 2017, the European Central Bank gave its consent to the ordinary shares emanating from the conversion to be effectively treated as Common Equity Tier 1.
Furthermore, Dexia was informed in February 2019[4] that the Belgian and French States had notified the European Commission of the renewal, beyond 31 December 2021, of the funding guarantee from which Dexia benefits. On the basis of the draft notification, the commission which would be payable by Dexia to the States on its liquidation as remuneration for the guarantee may absorb any net liquidation proceeds of Dexia, as a result of which the holders of hybrid Tier 1 debt of Dexia and Dexia Crédit Local, as well as the shareholders of Dexia would not receive any proceeds.

Authorised capital (Article 608 of the Companies Code)

Article 6 of the articles of association states that the amount of authorised capital is at any time equal to the amount of the share capital. As at 31 December 2018, the authorised capital represented EUR 500,000,000. The authorisation to increase the authorised capital granted by the shareholders' meeting on 14 May 2014 is valid for a five-year period ending in 2019. A proposal will be put to the shareholders' meeting to be held on 15 May 2019 to renew the authorisation to increase the authorised capital.

(2) Cf. Decision of the European Commission dated 28 December 2012 concerning State aid in favour of Dexia, DBB/Belfius and DMA, paragraph. 101.
(3) Cf. Press Release issued by Dexia on 19 September 2017, available at www.dexia.com.
(4) Cf. Press Release issued by Dexia on 26 February 2019, available at www.dexia.com.

Acquisition of own shares (Article 624 of the Companies Code)

The extraordinary shareholders' meeting on 16 May 2018 renewed the authorisation given to the Board of Directors for a new five-year period to:

• Acquire the company's own shares on the market or in any other manner, in accordance with the legal conditions applicable and the undertakings made by the company and by the Belgian, French and Luxembourg states to the European Commission, up to the legal maximum number, for a counter-value established in accordance with the legal provisions, and which may not be less than one euro cent (EUR 0.01) per share or more than 10% higher than the share's last closing price on Euronext Brussels;

• Authorise the direct subsidiaries within the meaning of Article 627 § 1 of the Companies Code to acquire the company's shares under the same conditions.

The Board of Directors did not however launch a programme to purchase own shares in 2018.

The unchanged balance of the portfolio of own shares as at 31 December 2018 amounted to 324 own shares and corresponds to the number of Dexia shares still held by Dexia Crédit Local (direct subsidiary of Dexia within the meaning of Article 627 § 1 of the Companies Code), within the context of a share option plan put in place by that subsidiary in 1999.

Prudential equity and solvency

Dexia monitors its solvency using rules established by the Basel Committee on Banking Supervision and European Directive CRD IV. On the other hand, the Group ensures observance of the capital requirements imposed by the European Central Bank (ECB), within the framework of Pillar 2 of Basel III, following the Supervisory Review and Evaluation Process (SREP).

The year 2018 was marked by the first application of the IFRS 9 account standard, which had a positive impact on the Group's prudential capital.

Prudential requirements applicable to Dexia with regard to solvency

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

The Total SREP Capital Requirement (TSCR) has been set at 11% on a consolidated basis. This level includes a minimum own funds requirement of 8% (Pillar 1) and an additional own funds requirement of 3% (P2R – Pillar 2 Requirement). By including the capital conservation buffer of 2.5%, as well as the countercyclical buffer relating to exposures in France and the United Kingdom, estimated at 0.35%, this takes the own funds requirement to 13.85%.

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

In addition the ECB expects Dexia to comply with Pillar 2 capital guidance (P2G) of 1%, to be held over the level of 13.85% and to be made up entirely of Common Equity Tier 1 capital (CET 1).

As a consequence, the minimum level of the CET1 ratio goes to 11.35%, taking account of P2G.

Prudential equity

Total capital can be broken down as follows:

• Common Equity Tier 1 capital, including in particular:

– share capital, issuance premiums, retained capital,

– profits for the year,

– gains and losses directly recognised in equity (revaluation of instruments at fair value through equity, revaluation of cash flow hedge derivatives, translation adjustments actuarial differences on defined benefit plans)

– the eligible amount of non-controlling interests,

– after deduction of intangible assets, goodwill, accrued dividends, own shares, the amount exceeding thresholds provided with regard to deferred tax assets and for holding shares and interests in credit or financial institutions, irrevocable payment commitments (IPC) to resolution funds and other guarantee funds, the amount for persistent breaches of the large exposure constraint[2] and elements subject to prudential filters (own credit risk, Debit Value Adjustment, cash flow hedge reserve, Prudent Valuation).

• Additional Tier 1 including Tier 1 subordinated debt;

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

In accordance with regulatory requirements and applicable transitional provisions:

• Dexia uses a dynamic approach to mitigating the impact of the new IFRS 9 provisioning model on prudential capital. This is spread over five years. In 2018, the effect of increasing provisions for expected credit losses in view of the application of the IFRS 9 accounting standard was 95% mitigated.

• Certain adjustments on subordinated and hybrid debt are taken into consideration in the calculation of capital in order to reflect the loss-absorption characteristics of these instruments.

As at 31 December 2018, Dexia Group's Total Capital was EUR 8.3 billion, compared to EUR 6.8 billion as at 31 December 2017.

At the same date, Dexia Group's Common Equity Tier 1 capital was EUR 8.1 billion, compared to EUR 6.5 billion as at 31 December 2017.

The first-time application of the IFRS 9 accounting standard on 1 January 2018 led to an increase of EUR +2.1 billion in the Group's Common Equity Tier 1 capital, mainly due to the cancellation of unrealised gains and losses recognised in equity under IAS 39 (cf. section "Impact of the first-time application of the IFRS 9 accounting standard for the Dexia Group" in the chapter entitled "Financial Results").

The Group's Common Equity Tier 1 capital as at 31 December 2018 was burdened by the negative net income for the year (EUR -473 million) and also benefited from a positive

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

PRUDENTIAL EQUITY

(in EUR million)	31/12/2017 IAS39	01/01/2018 IFRS 9	31/12/2018 IFRS 9
Total Capital	**6,811**	**8,846**	**8,278**
Common Equity Tier 1 Capital	**6,496**	**8,635**	**8,119**
Core shareholders' equity	9,214	8,815	8,365
Eligible gains or losses directly recognised in equity (1)	(2,792)	(406)	(227)
Cumulative translation adjustments (group share)	45	62	88
Actuarial differences on defined benefit plans	(1)	(1)	0
Non-controlling interests eligible in Tier 1	197	197	148
Mitigation at 95% of the effect of the increase of expected credit losses following the application of IFRS 9		168	168
Items to be deducted			
Intangible assets and goodwill	*(35)*	*(35)*	*(37)*
Ownership of Common Equity Tier 1 instruments in financial institutions (>10%)	*0*	*0*	*0*
Own Credit Risk	*0*	*0*	*0*
Debit value adjustment	*(48)*	*(48)*	*(52)*
Prudent valuation	*(84)*	*(84)*	*(227)*
Deduction of irrevocable payment commitments to resolution funds and other guarantee funds		*(32)*	*(47)*
Deduction for persistent breaches of the large exposure constraint			*(60)*
Additional Tier 1 Capital	**48**	**38**	**38**
Subordinated debt	48	38	38
Items to be deducted			
Ownership of Tier 1 instruments in financial institutions (>10%)	*0*		*0*
Tier 2 Capital	**267**	**173**	**121**
Subordinated debt	52	62	58
Of which additional Tier 1 reclassified	*48*	*58*	*58*
IRB provision excess (+); IRB provision shortfall 50% (-)	215	111	63
Items to be deducted			
Ownership of Tier 2 instruments in financial institutions (>10%)	*0*	*0*	*0*

(1) 2017: Eligible amount of available for sale reserve, reserve for reclassified financial assets and cash flow hedge reserve as well as eligible gains or losses directly recognised in equity for non current assets held for sale.
2018: Revaluation reserve of financial assets at fair value through equity, cash flow hedge reserve and gains or losses recognised directly in equity for assets held for sale.

evolution of the item "gains and losses directly recognised in equity" (EUR +207 million), mainly as a result of the improvement in credit spreads on American and Spanish sovereigns.

In line with European Central Bank requirements, two items are deducted from prudential equity for a total of EUR -107 million:

- The theoretical loss amount corresponding to the remediation of the non-compliance with the large exposure constraint, which amounts to EUR -60 million[1] ;
- The amount of irrevocable payment commitments (IPC) to resolution funds and other guarantee funds, for an amount of EUR -47 million.

As at 31 December 2018, the Group's Tier 1 hybrid capital securities represented a nominal total of EUR 96 million, including EUR 38 million eligible as additional Tier 1.

No hybrid debt buyback was carried out in 2018, in line with the prohibition imposed by the European Commission and communicated by Dexia on 24 January 2014[2]. The Group's hybrid Tier 1 capital therefore consists of:

- EUR 56.25 million nominal of perpetual non-cumulative securities issued by Dexia Crédit Local. These securities (FR0010251421) are listed on the Luxembourg Stock Exchange.
- EUR 39.79 million nominal of perpetual non-cumulative securities issued by Dexia Funding Luxembourg, today incorporated with Dexia. These securities (XS0273230572) are listed on the Luxembourg Stock Exchange.

Tier 2 Capital amounted to EUR 121 million as at 31 December 2018 and included the additional Tier 1 reclassified and the IRB provision excess.

Dexia's revised orderly resolution plan includes certain restrictions concerning the payment of coupons and the exercise of calls on subordinated debt and hybrid capital from the Group's issuers. In this way, Dexia is only required to pay coupons on hybrid capital and subordinated debt instruments if there is a contractual obligation to do so. In addition, Dexia cannot exercise any discretionary options for the early redemption of these

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

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

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 creditors must share in the financial burden resulting from the restructuring of financial institutions which have been granted State aid. In this regard, as indicated above, in February 2019, the Belgian and French States notified the European Commission of the renewal, beyond 31 December 2021, of the funding guarantee from which Dexia benefits. On the basis of the draft currently envisaged, the commission which Dexia 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, with the result that the holders of Dexia and Dexia Crédit Local hybrid Tier 1 debt would receive no proceeds[(1)].

Risk-weighted assets

As at 31 December 2018, risk-weighted assets decreased compared to the end of December 2017, to EUR 30.4 billion as at 31 December 2018, of which EUR 28.7 billion for credit risk, EUR 0.7 billion for market risk and EUR 1 billion for operational risk.
To recall, at the end of 2017, they were at EUR 33.4 billion, of which EUR 31.4 billion for credit risk.

RISK-WEIGHTED ASSETS

(in EUR million)	31/12/2017 IAS 39	01/01/2018 IFRS 9	31/12/2018 IFRS 9
Credit risk	31,371	32,750	28,670
Market risk	980	980	695
Operational risk	1,000	1,000	1,000
TOTAL	**33,351**	**34,730**	**30,365**

Solvency ratios

Considering these elements, Dexia's Common Equity Tier 1 ratio was 26.7% as at 31 December 2018, against 19.5% at the end of 2017. The Total Capital ratio was 27.3%, against 20.4% at the end of 2017, a level higher than the minimum imposed for the year 2018 by the European Central Bank within the framework of the Supervisory Review and Evaluation Process (SREP).
On-site inspections (OSI) by the supervisors are currently ongoing, in particular an inspection with regard to credit risk. Dexia will integrate the conclusions of such inspections, which might have an impact on the solvency ratios of Dexia Crédit Local and of the Dexia Group, when they are communicated.

SOLVENCY RATIOS

	31/12/2017 IAS 39	01/01/2018 IFRS 9	31/12/2018 IFRS 9
Common Equity Tier 1 ratio	19.5%	24.9%	26.7%
Total Capital ratio	20.4%	25.5%	27.3%

Internal capital adequacy

From 2012, Dexia began to reshape the internal capital adequacy assessment process, taking account of its specific situation as a bank in orderly resolution and in line with regulatory requirements. The conclusions of this internal approach in terms of capital adequacy measures and capacities to absorb losses were formally submitted to the bank's executive bodies on a quarterly basis in 2018. Capital adequacy is thus analysed over horizons aligned to those of the strategic plans. Analyses from three months to ten years were produced in 2018. Those used for ICAAP and ILAAP purposes are established over a horizon of three years with an annual step.
ICAAP and ILAAP stresses form an integral part of these analyses. In fact, within the framework of the Single Supervisory Mechanism (SSM), this approach known as "Risks and Capital Adequacy" also constitutes the response given by the Group to the requirements of the European Central Bank (ECB) in relation to the Internal Capital Adequacy Assessment Processes and the Supervisory Review and Evaluation Processes (SREP). Inspected by the supervisor in 2016, it has evolved since then to integrate inter alia the recommendations from that inspection.

More detailed information on ICAAP and ILAAP stress tests is provided in the chapter entitled "Risk Management" in this annual report.

The approach consists of establishing an exhaustive map of the qualitative and quantitative risk which might simultaneously affect the Group's accounting and prudential situation as well as its liquidity. Such risk mapping aims primarily to measure the sensitivities and exposures to multiples risk factors impacting the bank. Secondly, the simultaneous impact of various unfavourable future risk scenarios is measured, particularly in terms of the evolution of the principal accounting and prudential indicators. In this regard, and within the same framework, multiple transversal stress tests are performed. Possible departures from financial and strategic plans are thus identified, measured and analysed. These unfavourable scenarios simultaneously include macroeconomic stress scenarios, scenarios simulated mathematically and reverse stress tests.
This internal approach is renewed in 2019, taking account of the evolution of risks, market conditions and multiple exchanges with the supervisor throughout the year 2018.

Liquidity management

As a result of the reduction of the asset portfolio and the decrease of cash collateral (total net amount of EUR 22.7 billion as at 31 December 2018), funding outstanding decreased by EUR -18.5 billion, compared to the end of December 2017, to EUR 106 billion at the end of December 2018. The adjustment of the funding mix was achieved through the reduction of secured funding (EUR -14.1 billion compared to the end of 2017) due to the sale of the underlying assets and the termination of Dexia Crediop's domestic repo platform. There was also a reduction of unsecured funding (EUR -4.3 billion compared to the end of December 2017), half of which was due to the decrease of State-guaranteed funding, bringing the outstanding amount to EUR 65.5 billion at the end of December 2018, or 62% of the total outstanding amount of funding at that date.
Over the year, Dexia Crédit Local successfully launched various long-term public benchmark transactions in euros, US dollars and pounds sterling, raising EUR 7.3 billion at a particularly competitive funding cost. Short-term funding activity in guaranteed format was also strong, with an average maturity at issuance of 8.5 months.

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

The Group has not made use of central bank funding since September 2017.

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

As at the same date, the Group's Liquidity Coverage Ratio (LCR) stood at 202%, compared with 111% as at 31 December 2017. This was also respected at the subsidiary level, each exceeding the required minimum of 100%. The Group's Net Stable Funding Ratio (NSFR), estimated on the basis of the latest proposals to amend the CRR, would be above the target threshold of 100%, as a result of the Group's efforts since 2013 to improve its funding profile.

Non-financial declaration
Corporate social responsibility

Dexia Group CSR approach / methodology

The present corporate social responsibility (CSR) report is a part of the Dexia Group sustainable development approach in place since 2001 and the reports on which, over recent years, have been drawn up by the Group's operating entities.
This CSR report is drawn up in application of the Law of 3 September 2017, relating to the publication of non-financial information and information regarding diversity in certain large companies and groups, transposing Directive 2014/95/EU. The CSR risk analysis and the drawing up of the present report are performed in line with OECD guidelines for multinational companies. The scope of this report corresponds to the consolidated financial scope of Dexia.

Dexia Group activities

As indicated in the section of the Annual Report entitled "Group Profile", Dexia is implementing the orderly resolution plan validated by the European Commission in December 2012. This implementation is reflected in particular by:
- The fact that the Dexia Group is no longer commercially active and is fully involved in the management of its asset portfolio in run-off. The Dexia Group no longer has new clients, no longer grants new financing and no longer supports new projects. Moreover, it has adopted a dynamic policy for the reduction of its portfolio and its risks. When the macroeconomic environment allows, Dexia accelerates its asset disposals;
- The gradual and constant reduction of the Group's scope, which is reflected by the centralisation of its activities, the closure and disposal of subsidiaries and branches, and the outsourcing of certain production activities.

The orderly resolution has direct consequences in terms of impact on the Dexia Group's corporate social responsibility:
- The Dexia Group faces increased risks on social and staff matters, and significant accompaniment has been implemented by the Dexia Group to limit and to manage those risks;
- The risks regarding human rights and environmental matters, which are already limited for financial institutions with no industrial activity, are even more so for Dexia in the absence of any new commercial activity.

Having regard to indirect CSR risks, Dexia ensures the observance by its subcontractors and its suppliers of its CSR commitments by systematically adding clauses in contracts concluded or by signing the Charter of Professional Ethics.

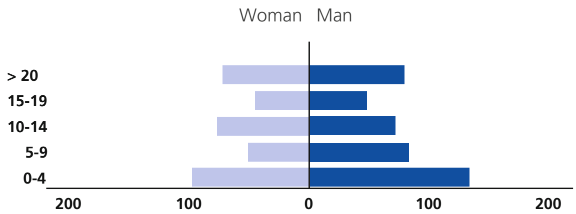
As for clients and projects financed, on the other hand, it is not possible to adopt a policy aimed at only funding projects which take account of CSR issues, for instance ecologically friendly projects, since Dexia no longer has new clients. For existing projects, the Dexia Group is obliged to meet its contractual undertakings until their term, irrespective of the social, environmental and corporate nature thereof. Finally, within the framework of execution of its policy to reduce its portfolio and its risks, the Dexia Group must deal with strict financial, accounting and regulatory constraints which do not allow it to consider CSR criteria as a priority.

Social and staff questions

Introduction

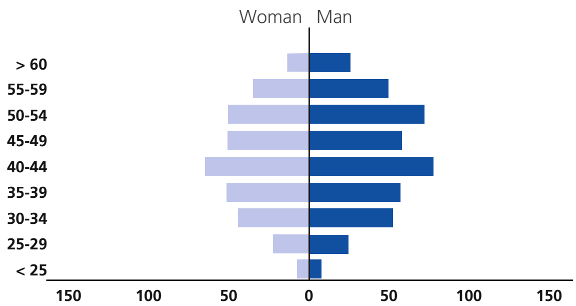
At the end of 2018, the Dexia Group had 773 staff members, of 27 different nationalities, in 10 countries. 57 people are based in Belgium. In France, the total workforce of Dexia Crédit Local was 430 as at 31 December 2018, against 544 at the end of 2017. The decline of the workforce in France is linked in particular to the outsourcing of IT and back office activities. Almost 50% of staff members joined the Group less than ten years ago and Dexia hired 88 new staff members in 2018 (+11%).

SENIORITY PYRAMID AS AT 31 DECEMBER 2018



At the end of 2018, the average length of service of Group staff members was 11.9 years. The average age was 44.3 years.

AGE PYRAMID AS AT 31 DECEMBER 2018



The overall split of the workforce between men and women was 55.2% and 44.8% respectively.
95% of the workforce are on indefinite-term contracts and 9% of Group staff members work part-time.

BREAKDOWN OF EMPLOYEES PER ESTABLISHMENT

	2017	2018
Dexia	65	57
Dexia Crédit Local France (excluding seconded / expatriated employees)	544	430
Dexia Crediop	102	86
Dexia Kommunalbank Deutschland	77	75
Dexia Crédit Local France (excluding seconded / expatriated employees)	111	91
Other establishments	95	34
TOTAL	**994**	**773**

BREAKDOWN OF EMPLOYEES PER GEOGRAPHIC AREA

	2017	2018
France	544	430
Belgium	65	57
Spain and Portugal	21	10
Italy	102	86
Germany	77	75
North America	111	91
Other countries	74	24
TOTAL	**994**	**773**

The orderly resolution plan implemented for more than 6 years has significant social consequences which Dexia wishes to anticipate in the best possible manner. Indeed, the Group principally faces difficulties in the recruitment and retention of staff, logically reflected by a high turnover. On the other hand, in view of its constant transformation, it must ensure the flexibility and employability of its staff members, in order for them to continue to fall within a development and mobility scheme.
The maintenance of a calm social climate is a major objective in the pursuit of an orderly resolution whilst ensuring the observance of the undertakings made by the States vis-à-vis the European Commission in December 2012.
Management seeks to increase the attractiveness of Dexia, to value professional opportunities within the Group and to guarantee staff members the best possible visibility concerning job prospects. Training and the development of individual and collective skills are two of the fundamental lines of this scheme.

Policies put in place

Training policy

Dexia seeks to offer all of its staff members an environment in which each of them is able to develop their skills so as to contribute to the Group transformation and to improve their own employability.
A great many training and development opportunities are offered to every staff member, in close collaboration with the Human Resources department, the heads of departments and direct managers. Dexia thus seeks to develop the expertise of each of them in phase with the evolution of the different business lines, a gauge of performance and employability.

Whilst a training plan common to Dexia Crédit Local Paris and Dexia is in force, each Group subsidiary defines its own training actions so as to adapt appropriately to the local situation and requirements.
The comparison of training figures between subsidiaries is not very relevant to the extent that the definition and rules applicable to training differ from one country to another.
In 2018, following on from previous years, the Human Resources department structured its actions around six training lines:

- Assistance with change within Dexia's specific context;
- Assistance in dealing with developments in business lines and/or mobility, by the identification of paths between business lines and the implementation of development actions fostering mobility between business lines and, thus, employability;
- Ongoing detection and prevention of psychosocial risks with a focus on well-being at work;
- Strengthening managerial and collaborative skills;
- Implementing regulatory mechanisms;
- Assisting senior staff members with the aim of keeping them in employment.

These lines form a training catalogue available in a tool which allows each staff member and manager to monitor their actions and training requests in real time.
In 2018, 94 collective training sessions were held by recognised training bodies and organised in Paris and Brussels. These training actions represent 51 different programmes which accompany the major processes and company agreements, the implementation of regulatory mechanisms, business line training, staff and management development and training linked to employability.
More particularly, certain tailored training actions were organised:

- Ongoing assistance of teams within the framework of the Horizon project (2nd wave);
- Improving training in foreign languages (French, Dutch, English and Spanish) within the context of the repatriation of certain international activities and with the aim of developing the employability of staff members;
- Developing training actions leading to obtaining certification;
- Assisting with the reorganisation of teams via tailored team-building;
- Numerous individual coaching actions.

In addition to these collective training sessions, other training or information actions were dispensed internally by colleagues, consultants or service providers. These actions are the object of specific supervision. Finally, to meet the needs of business lines, staff members have the opportunity to register individually for training and conferences run by external training bodies.
To illustrate this, the number of hours of training in 2018, all training combined (training, conferences, seminars) amounted to more than 9,400 hours for Dexia Crédit Local and Dexia.
At the end of 2018, the Human Resources department made an analysis which resulted in the reshaping of the existing training offer.
Dexia set itself the aim of providing real-term answers to all those involved in the company by offering:

- Means of training which fall more easily within the everyday life of everyone;
- More attractive programmes;
- Certifying programmes;
- Skills pathways;
- The opportunity to learn more languages.

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Internal mobility, recruitment and skills development

Internal mobility and recruitment

Within the framework of its resolution, Dexia offers specific professional opportunities, presenting a wide variety of tasks and a complete overview of banking business lines.

The Group has thus provided increased support this year to internal mobility, in order to promote skills development.

A careers committee, consisting of members of management and representatives of human resources was created five years ago to promote the development of internal talents. The committee meets on a quarterly basis and encourages the internal mobility of staff members as a priority over seeking external candidates. All requests for internal mobility made by any staff member or manager (change of activity line, business line, expatriation and so on) are studied with great care. The careers committee may also suggest mobility options which have not been requested, so as to foster the maintenance of skills within the Group.

When the skills sought are not available internally, the Group has undertaken a proactive and selective strategy for seeking candidates externally. Recruitments are managed at entity level. Considering their size and their recruitment volume, the majority of Group subsidiaries have chosen to outsource their recruitment activities in order optimally to meet skills requirements internally. Within Dexia Crédit Local and Dexia, the entire recruitment process is managed internally by a dedicated team. An IT platform allows the effective monitoring of internal and external applications. With a view to external recruitments, the team relies both on different CV libraries and on a solution enabling job advertisements to be disseminated by several channels simultaneously and for applications to be processed on line.

In order to optimise its activities and to develop its attractiveness to applicants, in 2018 Dexia strengthened its partnerships with recruitment sites or actors (cadremploi, Efinancial, jobteaser) and, in its own premises in Paris, organised Job Dating aimed at a young audience seeking placements or work-study contracts.

STAFF MOVEMENTS OVER THE ENTIRE GROUP

	2017	2018
Indefinite-term contract hiring	57	52
Individual redundancies of employees on indefinite-term contracts	19	8
Economic redundancies of employees on infefinite-term contracts	33	71
Resignations by employees on indefinite-term contracts	67	61
Shifts from fixed-term to indefinite-term contracts	6	3
Fixed-term redundancies (including work-study contracts)	41	36
Fixed-term redundancies	2	0
Fixed-term resignations	3	3
End of fixed-term (including work-study contracts)	39	24
Indefinite-term contracts transferred to Cognizant	52	81
Disposal of Dexia Israel	0	46
Other	23	16

The 16 other departures correspond to mutations within the Group, retirements, contractual terminations, ends of trial periods, departures and arrivals linked to expatriation.

Skills development

Through their contribution, staff members enable Dexia to perform its task for its shareholders and guarantors. In order to judge the good understanding of the objectives and the quality of that contribution, staff members are assessed annually by their managers through individual interviews. The individual interview is a preferred means of exchange particularly by the staff member and their manager, to go over the past year, to discuss targets for the following year and to review the professional career and the expectations of each of them.

Each entity has its own tools and processes to formalise such assessments, observing the specific local features and rules. Within Dexia and Dexia Crédit Local, assessments and annual targets (both business and behavioural) are presented by managers and staff members in a specific tool. In this way, the individual monitoring of each staff member and managerial involvement are increased.

Furthermore, within the framework of professional accompaniment and skills development, the Human Resources department organises regular individual interviews with each staff member the aim of which is to review their professional career and the associated training and, strictly confidentially, to consider their professional prospects. It also enables them to tackle the different aspects of professional life: functional elements, supervision, remuneration, private-business life balance and professional plans.

Outsourcing certain activities

In order for its resolution to proceed properly, the Dexia Group must guarantee its operational continuity. To adapt its operating model to the requirements of a resolution structure, the Group made the choice, on the one hand, to outsource certain activities to ensure their sustainability and, on the other hand, to simplify and to integrate its activities, so as to strengthen their resilience.

In that logic, on 4 October 2017, Dexia signed an outsourcing agreement with Cognizant in relation to its IT and back office activities in France and Belgium.

Under the terms of this 10-year agreement, the 133 Dexia staff members responsible for those activities joined a dedicated company, newly created in France by Cognizant. The implementation of the agreement was organised in two phases. IT services were transferred on 1 November 2017 and back offices joined Cognizant in May 2018.

Furthermore, an agreement was signed in December 2017 with the company Primexis, with a view to outsourcing Loan Lease management activities. This operation resulted in the loss or transfer of 6 jobs in 2018.

Prevention of social risks, health and safety

Eager to follow the policy to prevent psychosocial risks adopted several years ago, in 2018 Dexia renewed the mechanisms for assistance and the prevention of psychosocial risks put in place in Paris and Brussels. Several information and feedback vectors currently allow for the detection of those risks within the entities (business partners, the work doctor, social assistants, staff representatives and so on).

As for prevention, a certain number of measures were put in place within the entities, particularly preventive medicine consultations and attendances by work psychologists and/or a social assistant, yoga courses, ergonomic advice and a scheme dedicated to helping staff members leaving the company.

The Dexia Group also regularly organises awareness conferences for staff members concerning psychosocial risks, conferences on well-being and life quality, training and practical workshops on stress management, sleep-stress interactions, sleep and daily performance and so on, as well as coaching sessions.
Situations declared to be stressful are taken in hand and accompanied by different means: interviews with the Human Resources department, coaching measures and psychological support or help in working time management.
The Group and its subsidiaries comply with local regulations in force and apply specific procedures associated with the health and safety of staff members at work. The documents associated with health and safety at work are handed to staff members when they arrive in an entity. These documents are also accessible on local intranets and regularly updated.
The number of work accidents notified at Dexia and in its subsidiaries is extremely limited and consequently not significant.

Remuneration policy

The scheme in place within the Group provides that the Dexia Remuneration Committee prepares all matters relating to remuneration policy. Its proposals are then submitted to Dexia's Board of Directors, which approves the appropriate measures to be taken.
Dexia defines its remuneration policy in observance of the commitments made to the Belgian, French and Luxembourg States and the European Commission within the framework of the Group's orderly resolution plan. In particular Dexia applies the remuneration principles derived in the context of the G20, the national bodies and the CRD IV. The Group ensures that it makes the best use of public funds as regards remuneration. This policy applies to both fixed (non-performance-related) remuneration and any variable (performance-related) remuneration, the general principles of which apply to all members of staff. These principles include aligning remuneration policies and practices in order to create a balance between fixed and variable remuneration that does not encourage excessive risk-taking and establishing methods for evaluating the relationship between performance and variable remuneration.
In order to comply with rules and recommendations on good governance and sound remuneration practices and to avoid in any way incentivising excessive risk-taking, the Dexia Group has sought to reduce the variable component of remuneration for those of its members of staff who are contractually entitled to variable remuneration. The variable component of remuneration may not exceed 0.3 times an employee's annual fixed remuneration.
The remuneration policy and its implementation are regularly assessed in order to identify provisions which require adaptation particularly in view of the entry into force of new legal or regulatory provisions.

Remuneration paid to the executive body and to persons whose professional activities have a significant impact on the company's risk profile

The Dexia Group remuneration policy contains specific provisions applicable to a specifically identified population by virtue of their tasks likely to impact the Group's risk profile. This relates principally to members of the Management Board as well as staff members whose remuneration is equivalent to or more than the lowest remuneration paid to a member of the Management Board.
The remuneration of Management Board members now consists solely of a part not linked to performance, constituting a whole from which, unless there is a decision to the contrary by the Board of Directors on a proposal from the Remuneration Committee, there shall be deducted any attendance fee or thirteenth month paid to a member of the Management Board or by a third party company in which a mandate is exercised in the name and on behalf of Dexia.
In accordance with Article 17 of Appendix II to the Law of 25 April 2014 relating to the status and supervision of credit institutions, members of the Management Board of Dexia may not be granted a severance payment of more than 9 months fixed remuneration.
Notwithstanding the above, Dexia may grant a higher severance payment to a member of the Management Board if the person concerned, prior to the grant of the executive mandate, in accordance with the contractual framework in force and on the basis of their accumulated length of service within the Dexia Group, is entitled in such a case to a severance payment of more than the aforementioned payment.
Furthermore, staff members whose professional activities have a significant impact on the company's risk profile having regard to the applicable legal provisions of the CRD IV Directive and the Delegated Regulation (EU) No 604/2014, are entitled in such a case to a severance payment which may not in principle exceed twelve months of remuneration, it being possible however for that amount to reach eighteen months in specific circumstances after approval by the ordinary shareholders' meeting.

More detailed information on the remuneration of the Management Board is provided in the chapter entitled "Declaration of Corporate Governance" of this Annual Report.

Average annual remuneration

An aggregation of remuneration appears irrelevant at a Group level as the attribution and calculation rules differ from one entity to another. The figures relating to remuneration are therefore not communicated.

Dialogue within the company

Social dialogue

All of Dexia's social negotiation bodies meet at various times to consider the Group's financial situation and organisation within the context of the reorganisation and outsourcing projects currently under way.
Furthermore, the Group recognises, fosters and respects freedom of association and the right to collective bargaining. Any staff member may establish or join a union organisation of their choice. Within the framework of the laws and regulations applicable to it, the Group also recognises and respects the right of its staff members, in collective negotiations concerning the work relationship, to be represented by their union(s).

Policy regarding equality of treatment

Professional gender equality

The Dexia Group follows a voluntary policy aimed at promoting professional gender equality. This is reflected by the adoption of concrete actions in the fields of communication, recruitment, professional training, career-mobility-promotion management, the business and private life balance and remuneration. Indicators enable this policy to be monitored annually.

There is an agreement in relation to professional gender equality within Dexia Crédit Local, and an envelope has been renewed with a view to removing any unjustified differences between the remuneration of men and women.

More detailed information on the diversity policy applied to members of the Board of Directors and the Management Board is provided in the chapter entitled "Declaration of Corporate Governance" of this Annual Report.

Creation of a professional network for women

In 2018, on the initiative of a dozen staff members, Dexia gained a professional network for women. Named "Dexi'elles", this network aims to assist women at Dexia to achieve their ambitions and to encourage them to exchange views and to share their experiences, in order to get to know each other better and to optimise their career development. This network is behind a number of initiatives (inspiring women's seminars, a mentoring programme, coffee corners and so on). With 71 members in mid-March, Dexi'elles increases Dexia's attraction as an employer.

Combating other forms of discrimination

The Dexia Group respects all measures in force locally to combat discrimination.
In particular, Dexia promotes and respects the stipulations of fundamental agreements of the International Labour Organisation relating to freedom of association and the right to collective bargaining and the elimination of discrimination at work.
Dexia has staff members of 27 different nationalities and can rely on the expertise of senior profiles: staff members of more than 55 years old represent 16% of the workforce.

Human rights

Dexia carries on its activities respecting human rights. A breach of that undertaking might in particular harm Dexia's reputation and give rise to administrative, legal or criminal penalties. To arm itself against all indirect risks associated with the activities of its suppliers, a charter of professional ethics concerning the relations of the Dexia Group with its suppliers imposes numerous obligations concerning human rights and in particular the obligation:

- Not to use or allow its own suppliers or subcontractors to use child (under 15 years) or forced labour;
- To observe all the legislative and regulatory provisions aiming at guaranteeing its staff members safe and certain working conditions and environment observing individual and collective freedoms, in particular regarding the management of work timetables, remuneration, training, union rights, hygiene and safety;
- To observe all the legislative and regulatory provisions on discrimination (whether sexual, ethnic, religious, political or otherwise) in hiring and managing staff;
- In practice not to support any psychological or physical coercion and vexatious or humiliating verbal abuse;
- To observe the provisions of employment law in force both in the hiring of staff and/or during the execution of the contract of employment.

In addition, Dexia staff members in charge of purchasing act within a specific code of conduct which sets the rules of behaviour in relation to suppliers and subcontractors.

Fair practices – corruption

Dexia is committed to performing its activities in a healthy and fair environment, in total compliance with all legal and regulatory provisions in force. Dexia will take all necessary measures to prevent corruption, in all of its activities, throughout the Group. Within that context, Dexia has established provisions applicable to all its staff members, but also to all those who work for the Group and those who act on its behalf. This is to prevent corruption and to apply a zero-tolerance policy in this regard. Nevertheless, to the extent that Dexia is managing its balance sheet in run-off, does not have new clients, and only enters into business relations with financial counterparties for the funding of its balance sheet, the risk of corruption is considered to be relatively low.
Nonetheless and as is the case for any activity, non-compliance risks exist and to remedy them the Dexia Group has introduced an integrity policy with the objective of:

- Promoting honest, open and ethical behaviour and;
- Ensuring respect for the laws, regulations and other professional standards, as well as observance of Dexia codes of professional ethics, codes of conduct and other Group policies, in order to enhance and to protect the reputation of Dexia. The Compliance Charter describes the role and fields of competence of the Compliance function and presents the principles of governance underlying the approach adopted by Dexia in this area.

BREAKDOWN OF EMPLOYEES BY GENDER

	2017			2018		
	Women	Men	Total	Women	Men	Total
Management Board	2	4	6	2	4	6
Executives	306	384	690	231	306	537
Employees	143	155	298	113	117	230
OVERALL TOTAL	**451**	**543**	**994**	**346**	**427**	**773**

BREAKDOWN OF EMPLOYEES BY AGE AND SOCIO-PROFESSIONAL CATEGORY

	< 25 years	From 25 to 29 years	From 30 to 34 years	From 35 to 39 years	From 40 to 44 years	From 45 to 49 years	From 50 to 54 years	From 55 to 59 years	60 years and +	Total
Management Board	0	0	0	0	0	1	1	3	1	6
Executives	5	39	79	78	92	78	80	57	29	537
Employees	11	8	18	32	50	32	43	24	12	230
OVERALL TOTAL	**16**	**47**	**97**	**110**	**142**	**111**	**124**	**84**	**42**	**773**

These principles are declined in the policies and procedures put in place by all the Group entities.

Preventing corruption

The procedural mechanism dealing with corruption was strengthened in 2017. An anti-corruption code of conduct was put in place and completes the set of policies in force. It defines the different types of behaviour to be forbidden. It becomes the market standard and allows the demands of partners, financial counterparties and rating agencies to be met.
In addition to this anti-corruption code of conduct, Dexia has policies and procedures which seek to limit the risks of corruption, like the Group purchasing and supplier code of professional ethics, the charter of ethics within the context of business relations with suppliers, the policy regarding gifts, favours or invitations and the outsourcing supervision policy.
Within the context of preventing political corruption, the set of policies and procedures in force is strengthened by a policy of "risk countries", which includes the risk of corruption as an essential criterion in the classification of risk countries. The Group has also adopted a policy in relation to politically exposed persons (PEP) to prevent the risk of money laundering on the basis of acts of corruption.
Finally, internal standards complete the anti-corruption mechanism by risk mapping adapted to the risk of corruption, the definition of a corruption prevention plan and the training of staff members on the prevention of that risk. Dexia trains all its staff members, at a minimum every two years, in the risks of corruption and trading influence.
At present, a person employed full time is in charge of training in Paris and a correspondent provides training in Group entities.

During 2018, Dexia recorded:
• No incident of corruption,
• No confirmed incident involving employees,
• No confirmed incident with business partners,
• No public case against the institution or its employees.

Preventing money-laundering and terrorism financing

• Dexia attaches a great deal of importance to the good management of risks regarding money laundering and terrorism financing and the effective fulfilment of national and international obligations in that respect.
• To guarantee a harmonised and consistent approach across the various Group entities, Dexia has defined a series of general policies (country policies, politically exposed persons, OFAC policy and so on), on the basis of which Group entities have adopted procedures and instruction notes detailing the obligations and formalities applicable with regard to:
• Knowledge and identification of clients, representatives, proxies and economic beneficiaries;
• Verification in relation to official lists of criminals, terrorists, those involved in nuclear proliferation and so on, issued by national and international authorities;
• Monitoring account and business relations throughout the term of the relationship;
• Supervision of operations and detection of suspect transactions;
• Training employees of the bank every two years at a maximum in the risks of money laundering and terrorism financing;
• Cooperation with the regulatory and legal authorities in cases of suspicion of money laundering and terrorism financing in accordance with the applicable requirements.

Market abuse and personal transactions

Dexia has introduced measures aimed at managing the risks of market abuse, i.e. insider trading and price manipulation in relation to financial instruments issued by Dexia and by any other issuer.
These measures are principally reflected in a policy aimed at preventing insider trading in relation to its financial instruments and a policy relating to personal transactions carried out by the persons concerned. This latter measure guarantees that Dexia (as a provider of investment services) as well as its directors, staff members and affiliated agents fulfil the obligations set in the MIF 2 Directive as well as the appropriate rules applicable to personal transactions carried out by such persons. There are also measures regarding confidentiality, the establishment of lists of insiders and Chinese walls.

Integrity and the prevention of conflicts of interest

Within the framework of the MIF 2 Directive, Dexia has introduced specific standards to guarantee a high level of investor protection, such as the policy on conflicts of interest.
Dexia undertakes to respect the good operation of the markets on which it operates, as well as the internal rules and procedures of those markets. Dexia undertakes not to intervene in operations which might contravene laws of regulations.
Dexia undertakes that market operators will show professionalism and integrity vis-à-vis intermediaries and counterparties. Internal rules have been adopted to govern the external functions which might be exercised by staff members in application of local rules or general principles concerning the prevention of conflicts of interest.
Dexia has a policy aimed at guaranteeing the independence of its auditors. Indeed, checks should be made, prior to granting a task which is not directly linked to the legal audit work, inter alia whether that task is not, despite everything, liable to affect the independence of the auditors.

Whistleblowing

Dexia has introduced a whistleblowing system accessible to all its staff members as well as external and occasional providers of services to Dexia. It is intended to encourage staff members and other stakeholders confidentially to report any conduct contrary to ethics, the law or national or European regulations, which might generate a significant risk for Dexia (risk of financial losses, risk of sanction and/or risk to reputation).
The facts which might be the object of such a report are likely to be extremely varied: the internal whistleblowing system relates to all failures to fulfil legal, regulatory or prudential obligations as well as the internal rules of compliance, liable to cause severe harm to the Dexia Group or the general interest.

Protection of professional data and security

Discretion and observance of the requirements of professional secrecy (including banking secrecy when it is applicable) are essential, particularly with a view to protecting Dexia's reputation. In this regard, procedures have been introduced within the Dexia Group in observance of national regulations.
In addition, within the framework of training in relation to compliance, staff members are regularly taught about such obligations of discretion and observance of the separation of functions, in particular with reminders of the good practices to be adopted.
Data protection is essential and Dexia observes all national and European provisions in relation to the protection of personal data.
Following the entry into force of the General Data Protection Regulation (GDPG), Dexia identified and referenced all the processes involving personal data, and updated or amended policies and procedures which describe management of the rights of the persons concerned and the warning of breaches. The Group identified an external provider for the deployment of training for all staff members.
Moreover, Dexia updated its internet site to enable third parties to understand the processing of personal data undertaken by the company, their rights and contact details.
For more detailed information, please consult the Dexia internet site (http://www.dexia.com/FR/mentions_legales/Pages/default.aspx).

Environmental matters

As a Group active in the financial sector, environmental risks are limited, Dexia has no industrial production activity and as indicated in the introduction, the Group's situation of orderly resolution does not enable it to provide a policy for indirect risks associated with environmental matters.
As part of their policy for managing direct environmental impacts, the Dexia Group has the main objective of reducing greenhouse gas emissions linked to energy consumption associated with their buildings and staff business travel. The Group also pursues a proactive policy of reducing waste and responsibly using consumables.

Waste management and the responsible management of consumables

Systems for the selective sorting, collection and recycling of paper and internal waste (toners, electrical waste, obsolete equipment, etc.) have been put in place within the Dexia Group. All printers are configured by default to print double-sided in black and white, and all offices have individual selective recycling bins.
As part of its policy of responsible purchasing and reducing paper consumption, Dexia Crédit Local has implemented a range of actions concerning the types of paper used, such as decreasing the weight of paper and using only recycled, bleach-free virgin, PEFC-certified paper. During 2018, an amount of 13.35 tonnes of office paper was used (compared to 14.5 tonnes in 2017).
In the United States, the branch sorts its waste both within its offices and at basement level to enable its service providers to collect waste effectively.
Dexia Kommunalbank Deutschland and its staff members are ranging themselves behind the environmental protection approach. In this respect, Dexia Kommunalbank Deutschland uses recycled paper and has commissioned a waste management company presenting an environmental protection charter.

Sustainable use of resources: energy consumption

In order to limit its carbon footprint, Dexia constantly seeks to improve the energy efficiency of its premises. The Group maintains the proportion of its electricity consumption accounted for by green electricity.
Data relating to energy consumption and greenhouse gas emissions are monitored:
• In France, the main buildings of Dexia Crédit Local have been supplied since 1 January 2008 100% with green electricity;
• The maintenance staff of Dexia Crédit Local New York have been made aware of the Energy Star programme launched by the government and responsible for promoting energy savings in the United States. Low-energy bulbs are used to light offices, all the products used are environment-friendly and air-conditioning units are checked and cleaned every month;
• In Italy, Dexia Crediop uses hydro-electricity for practically all of its energy requirements.

Contribution to combating global warming

For several years, Dexia has been working to reduce its greenhouse gas emissions associated with staff business travel, focusing on two areas: reducing travel and minimising the impact of travel by encouraging the use of less polluting modes of transport.
At a Group level, the impact of such travel with regard to greenhouse gas emission remains limited, as almost all travel is by rail, between Brussels and Paris.

Commuting

In Belgium, Dexia is demonstrating its commitment in the area of staff travel by paying the costs of public transport passes for its staff members.
In France, Dexia Crédit Local is demonstrating its commitment in the area of staff travel by paying 60% of the cost of public transport passes for staff members working at La Défense.
In Ireland, in accordance with the provisions of the government's "Bike to Work" scheme, Dexia Crédit Local Dublin encourages members of staff to cycle to work.
Dexia Crediop has paid a portion of commuting costs since 2007.

Optimisation of business travel

In order to reduce distances travelled, staff members are encouraged to make use of video and telephone conferencing. The use of these means has increased sharply since 2016. The use of telephone conferencing has been multiplied by almost 2.5 times, whilst that of video conferencing has been multiplied by more than 5 times.

Using an external provider for the management of IT servers

The Group uses an external provider for the management of its IT servers. The consumption of electricity attributable to this service, transmitted by the provider, was 327 MWh, or greenhouse gas emissions of 83 tCO_2e in 2018, compared to 478 MWh, or greenhouse gas emissions of 121 tCO_2e in 2017.

Information relating to social commitments in favour of sustainable development

Dialogue with stakeholders

Dexia regularly communicates with the banking supervisors, majority shareholders and generally the various stakeholders in the Group's resolution.

Partnership and sponsorship actions

Dexia's commitment to society is reflected by the implementation of policies and actions to benefit local actors in the different countries in which the company has a direct or indirect presence. Various permanent or ad hoc initiatives are organised within the Group.

"Bright Future" mentoring programme

Dexia has responded to a call from the association Be.Face, a network of companies acting in real terms against exclusion in Belgium. Its aim, via its "Bright Future" programme, is to facilitate the professional integration of vulnerable students. Training in the LinkedIn social network has been given to disadvantaged people seeking employment in the premises of Dexia in Brussels.

Collection of spectacles in favour of the OLSF association

Dexia Crédit Local's Works Council organises the collection of new or used spectacles in favour of the OLSF association, the aim of which is to combat sight impairments throughout the world.

Dexia's participation in the "Course des Lumières"

On Saturday 24 November 2018, Dexia participated in the 3rd edition of the "Course des Lumières", a sporting and solidarity event in favour of cancer research at the Institut Curie. Thirty-five Dexia Group staff members entered and, through their commitment, raised EUR 860 in donations to the Institut Curie.

Declaration of corporate governance

Introduction

Reference code

The Belgian Code of Corporate Governance, designated by the Belgian legislator as the Reference Code ("2009 Code"), is the reference for Dexia as a company whose shares are listed on a regulated market within the meaning of Article 96, § 2 1° of the Companies Code. It is available on the Belgian Official Gazette website as well as on the website www.corporategovernancecommittee.be.
The 2009 Code contains nine mandatory principles for listed companies, declined in different lines of conduct. Dexia respects these nine principles and the guidelines arising from them, with the exception of that relating to the presence of a majority of independent directors within the Appointments Committee. An examination of the composition of that committee is curently under way. However, and despite the measures taken, the Board of Directors temporarily departed from the gender mix obligations, as explaine in the paragraph on the representation of women. The situation has now been restored.

Corporate Governance Charter

The Corporate Governance Charter of Dexia (hereafter the "Charter") gives a detailed overview of the principal governance aspects of the company. In accordance with the 2009 Code, the Charter has been published since 31 December 2005 on the company's website *www.dexia.com* and is regularly updated.

Relations with shareholders

Shareholder base

As at 31 December 2018, the main Dexia shareholders were as follows:

Shareholder name	Percentage of existing Dexia shares held as at 31 December 2018
Belgian federal government through the Federal Holding and Investment Company	52.78%
French state	46.81%
Institutional, individual and employee shareholders	0.41%

On that same date, no individual shareholder, with the exception of the Belgian Federal State and the French State held 1% or more of the capital of Dexia.
Au 31 December 2018, one director of Dexia held 1 share in the company.

Relations with individual shareholders

The annual shareholders' meeting is held in Brussels on the third Wednesday in May. It is subject to the provision of dedicated information: official notices appear in the Belgian Official Gazette, announcements are published in the financial press in Belgium and Luxembourg, and an invitation to attend in French, Dutch and English can be downloaded from the website.
Since 1 January 2012, in accordance with the provisions of the Law of 20 December 2010 relating to the exercising of certain rights by the shareholders of listed companies, the level of share ownership required to allow one or more shareholder(s) to submit a proposal to the shareholders' meeting has been 3%.
The ordinary shareholders' meeting was held in Brussels on 16 May 2018 and directly followed by an extraordinary shareholders' meeting, the minutes of which are available on the website.

Relations with institutional investors

Relations with institutional investors are monitored by a dedicated team (investor-relations@dexia.com), which manages the relations with bond investors in connection with the marketing of the Dexia Group funding programmes.

Information channels

Regular information channels

Throughout the year, notwithstanding its obligations with regard to the communication of inside information, Dexia publishes information through press releases on the Group's business, financial results and news. All this information is available, as soon as it has been published, on the website *www.dexia.com* under the "Shareholder/Investor" section.

The website (www.dexia.com)

The website www.dexia.com is the main source of information on the Dexia Group notably for individual shareholders, journalists and institutional investors.

Other resources

Dexia publishes complete annual information for shareholders and investors. The Dexia annual report is available in three languages: English, Dutch and French, only on the website. The risk report published yearly is only available in English on the website.

Observance of applicable legislation

As a Belgian-law company, whose shares are listed for trading in Belgium, Dexia ensures compliance with its legal and regulatory obligations to provide specific and periodic information.

Financial Services and Markets Authority (FSMA) Circular FSMA/2012-01

A Royal Decree of 14 November 2007 "on the obligations of issuers of financial instruments admitted to trading on a Belgian regulated market" in particular stipulates the obligations of issuers with regard to the information to be provided to the public and their obligations to holders of financial instruments. On 11 January 2012, the Financial Services and Markets Authority ("FSMA") published a Circular, updated on 12 November 2018, explaining this Royal Decree. In accordance with this regulation, since 2003 Dexia has used its internet site to fulfil its obligations to publish the information stipulated by the Royal Decree and the Circular, and in particular created a separate part of its internet site dedicated to the mandatory financial information referred to in the Circular.

Management of the Dexia Group

Since 10 October 2012, Dexia and its main subsidiary Dexia Crédit Local have had an integrated operational management team adapted to the Group's new dimension and its specific features.
Although separate legal structures have been maintained, the Group's management has been unified, particularly via common administration of the two main entities, Dexia and Dexia Crédit Local.

Dexia's Board of Directors

Composition of the Board of Directors

The Articles of Association of Dexia provide that the Board of Directors is composed of a minimum of 9 directors and a maximum of 13 directors. At least one half of the Board of Directors are non-executive directors and at least three of them are independent. In addition, at least a third of the members of the Board are a different gender to the other members. The Board is composed of Belgian and French directors. The Belgian directors must always be in a majority. The Chairman of the Board of Directors is French and the Chief Executive Officer is Belgian. A director may, with the agreement of a majority of each group of directors of the same nationality, be considered as of Belgian or French nationality even though in reality they are of another nationality, the other nationality or of double nationality. Mr Giovanni Albanese, of Italian nationality, made use of this provision and must be considered to have Belgian nationality.
As at 31 December 2018, the Board of Directors of Dexia is composed as follows:

GILLES DENOYEL

Independent director
4 August 1954 • French • Director since 2018
Holds no Dexia shares
Chairman of the Board of Directors of Dexia
Chairman of the Board of Directors of Dexia Crédit Local

Tem of mandate: 2018-2022

Specialised committees: Chairman of the Appointments Committee – Member of the Remuneration Committee

Other mandates and functions: Chairman of BGD Conseil (France) • Director of Margo Bank (France)

Biography: Gilles Denoyel is a graduate of the École des Mines in Paris, the Institut d'études politiques in Paris (IEP) and the ENA. He was appointed Inspector of Finance at the Ministry of the Economy and Finance in 1981 before, in 1985, joining the Directorate of the Treasury as Mission Head and then Secretary General (1987) to the CIRI, Head of the Credit Insurance Office, Head of the Financial Markets Office (1989-92), Deputy Director of Insurance (1992-94) and Deputy Director of Holdings (1994-96). He then joined the CCF group in 1996 as Director Finance, Secretary Seneral in charge of Strategy and Operations in 1998, then Deputy Director General Finance in 2000 and participated in the link-up with the British group HSBC where he continued his career as Deputy Chief Executive Officer of HSBC France from 2004. In that role, he was first in charge of central and financial functions. In 2006, he took charge of the asset management business line, insurance activities and central non-financial functions. From 2007, he supervised all the risk and control functions and relations with the supervisory authorities. In 2015, he was appointed International President Institutional Relations of the HSBC group for Europe. Since his retirement from the HSBC group, in June 2016, he has been Chairman of BGD Conseil, Senior Advisor at Bain Consulting and Operating Partner at Advent International. He was chairman of the group of banks under foreign control in France from 2006 until 2016 and Treasurer of the French Banking Association from 2004 until 2016.

Principal fields of expertise: finance and banking, financial risk management, direction and management of institutions.

WOUTER DEVRIENDT

10 April 1967 • Belgian • Executive director of Dexia since 2016
Holds no Dexia shares
Chief Executive Officer and Chairman of the Management Board of Dexia
Director and Chief Executive Officer of Dexia Crédit Local
Chairman of the Board of Directors of Dexia Crediop

Term of mandate: 2016-2020

Biography: Wouter Devriendt holds an MBA from the Rotterdam School of Management (1992) as well as a Master's degree in applied economics from the Catholic University of Louvain (KU Leuven) in Belgium (1989). Between 1993 and 2011, he acquired international banking experience of more than 18 years in several posts with the wholesale bank ABN AMRO (Amsterdam, Prague, Houston, Ecuador, Sydney and London) and Fortis (Brussels and Amsterdam). From 2011 to 2016, he was in particular an independent adviser of the Federal Holding and Investment Company, where he was responsible for management of the investments of the Belgian State in the finance sector. From 2014 to 2016, he was a member of the General Council of the Hellenic Financial Stability Fund which aims to contribute to the stability of the Greek banking system in the general interest. From 2013 to 2016, he was also Chairman of the Supervisory Board of the Amsterdam Trade Bank. Since May 2016, he has been Chief Executive Officer and Chairman of the Management Board of Dexia and Chief Executive Officer of Dexia Crédit Local.

Principal fields of expertise: finance and banking, direction and management of institutions.

GIOVANNI ALBANESE

22 February 1959 • Italian • Executive director since 1 October 2018
Holds no Dexia shares
Chief Risk Officer and member of the Management Board of Dexia
Director and Executive Vice-President of Dexia Crédit Local

Term of mandate: 2018-2022

Biography: Giovanni Albanese has a degree in electrical engineering from the University of La Sapienza (Italy), a Master of Science and a third cycle Degree in electrical engineering from the University of Southern California (USA), as well as an MBA from the University Bocconi (Italy). After working for more than 12 years in different firms of consultants (McKinsey & Company, Booz Allen and Hamilton and Roland Berger Strategy Consultants), he joined the Unicredit group in 2006, where in particular he was head of risks for Italy, head of the group's credit risk and head of the group's internal validation department. In September 2018, he was appointed Chief Risk Officer of the Dexia Group and a member of the Management Board of Dexia.

Principal fields of expertise: risk management, finance, strategy.

BART BRONSELAER

Independent director
6 October 1967 • Belgian • Non-executive director since 2012
Holds no Dexia shares
Director of Dexia Crédit Local

Term of mandate: 2017-2021

Specialised committees: Chairman of the Risk Committee • Member of the Audit Committee

Other mandates and functions: Independent Director of United Pensions OFP

Biography: Bart Bronselaer holds a degree in industrial engineering (Group T – Louvain), as well as a master's degree in information sciences (VUB) and a master's degree in business administration (MBA – U.C. Louvain). The major part of his career (1993-2003) was spent with Merrill Lynch International in London, where he held various positions, the last chronologically as Head of Debt Capital Markets for Europe, the Middle East and Africa. There he had the task of structuring and selling financial solutions to various clients, such as financial institutions, industrial companies and public bodies. In 2003, he became an independent expert in financial services. He was Chairman of the Board of Directors of Royal Park Investments until 31 December 2013.

Principal fields of expertise: financial markets, finance, structured finance, derivatives, strategy

CLAIRE CHEREMETINSKI (CO-OPTED 4 FEBRUARY 2019)

2 May 1976 • French • Non-executive director since 2019
Holds no Dexia shares
Director of Dexia Crédit Local

Term of mandate: 2019-2023

Specialised committees: Member of the Remuneration Committee

Principal function: Head of the bilateral affairs and corporate internationalisation department of the general directorate of the Treasury, to the Ministry of the Economy and Finance (France)

Other mandates and functions: Director of Business France and BPI France • Government Expertise Commissioner France.

Biography: Claire Cheremetinski is a graduate of the Institut d'études politiques (IEP) in Paris and the Ecole nationale supérieure des postes et télécommunications (ENSPT) and holds a DESS in human resources management from the University of Paris IX Dauphine. She began her career in 2003 as a Deputy Head of the "Debt, international finance and secretariat" Office of the Club de Paris to the General Directorate of the Treasury. In 2005, she became financial adviser to the permanent representation of France with the European Union in Brussels. In 2007, she was appointed Head of the enterprise and insurance intermediaries office to the General Directorate of the Treasury. She then became General Secretary of the Club de Paris and Head of the International Debt Office of the Club de Paris in 2009. In 2011, she was appointed Head of Shareholding at the French Government Shareholing Agency. In 2014, she became Deputy Director in charge of commercial policy, investment and combating financial criminality to the General Directorate of the Treasury. Since 1 September 2017, she has been in her present post.

Principal fields of expertise: economics, financial markets, financial regulation.

ALEXANDRE DE GEEST

5 February 1971 • Belgian • Non-executive director since 2012
Holds no Dexia shares
Director of Dexia Crédit Local

Term of mandate: 2017-2021

Specialised committees: Member of the Risk Committee • Member of the Remuneration Committee

Primary function: General Administrator of the Belgian Federal Public Service Finance (FPS Finance).

Other mandates and functions: Chairman of the Protection Fund for Financial Instruments • Member of the Commission for Nuclear Reserves

Biography: Alexandre De Geest is a graduate in law from the Catholic University of Louvain and the Free University of Brussels. He has been a director of numerous companies including Gazelec (2004-2005) and the Silver Fund since 2003. He was an Adviser to the Cabinet of the Federal Minister of Finance from 2000, then an Adviser to the Cabinet of the Federal Minister of Foreign Affairs in 2011. He has been director of FPS Finance since 2012 and CEO since 2016.

Principal fields of expertise: financial markets, finance, taxation

MARTINE DE ROUCK (UNTIL 22 APRIL 2019)

Independent Director
12 August 1956 • Belgian • Non-executive director since 2017
Holds no Dexia share
Director of Dexia Crédit Local

Term of Mandate: 2017-2021

Specialised committees: Chairman of the Remuneration Committee • Member of the Appointments Committee

Other mandates and functions: Non-executive director of Orange Belgium

Biography: Martine De Rouck holds a master's degree in mathematics from the Vrije Universiteit Brussel (VUB) and actuarial sciences from the Université libre de Bruxelles (ULB). She has spent her entire career in the banking sector. In 1978 she joined Générale de Banque, where she held various posts, including that of director general of marketing and commercial head for the Brussels region. At Fortis Banque, she held the posts of Chairman of the Management Board of e-Banking France as from 2000, as well as head of the marketing department for the retail bank. In 2003, she became CEO of the Banque de la Poste. In 2009 she became CEO of the BCC Corporate. In 2010, she became head of the fraud protection department of BNP Paribas Fortis.

Principal fields of expertise: finance, audit, accounting, fraud protection, operational risk, risk management and HR.

BERTRAND DUMONT (CO-OPTED 28 NOVEMBER 2018)

2 July 1973 • French • Non-executive director since 2018
Holds no Dexia shares
Director of Dexia Crédit Local

Term of mandate: 2018-2023

Specialised committees: Member of the Risk Committee

Principal function: Deputy Director General of the Treasury (France)

Other mandates and functions: Non-executive director of Business France

Biography: Bertrand Dumont is a graduate of the Ecole nationale d'administration (ENA), the Institut d'études politiques de Paris (IEP) and the Ecole normale supérieure Ulm. He began his career in 2001 at the Ministry of Finance, to the General Directorate of the Treasury, where successively he held the posts of Deputy General Secretary of the Club de Paris and Head of Treasury Management for the State. In 2005, he was appointed adviser to the International Monetary Fund (Washington DC) where he became Deputy Director for France in 2006. In 2007, he was appointed adviser on international and European affairs to the cabinet of the Minister of the Economy, Industry and Employment (Paris). In 2010, he became adviser in charge of financial services to the cabinet of the Vice-President of the European Commission in charge of the internal market and services (Brussels), and he was appointed Head of Cabinet in 2014. From 2015 until 2017, he was a Head of Prudential Management at HSBC France (Paris). From 2017 until 2018, he was Deputy Director of the Cabinet of the Minister of the Economy and Finance (Paris). Since 2018, Bertrand Dumont has been Deputy Director General of the Treasury.

Principal fields of expertise: economics, financial markets, financial regulation, risk management.

THIERRY FRANCQ

30 April 1964 • French • Non-executive director since 2013
Holds no Dexia shares
Director of Dexia Crédit Local

Term of mandate: 2017-2021

Specialised committees: Member of the Audit Committee • Member of the Appointments Committee

Primary function: Director of the Cabinet of the Chairman and CEO of the Covea Group

Biography: Mr Thierry Francq is a graduate of Ecole polytechnique and Ecole nationale de statistiques et d'administration économique (ENSAE). He began his career in 1988 in the direction de la Prévision (Ministry of the Economy, Finance and Industry), as Deputy Head of the Foreign Office and then of the Financial Transactions Office. In 1992, he joined the Treasury department where he was Deputy Head of the Housing Financing Office and, as of 1995, Head of the Office in charge of French policy regarding the International Monetary Fund (IMF), the international financial system and the preparation of the G7 summits. From 2000 to 2002, he held the position of Deputy Head in charge of the regulation of insurance companies, products and markets and then, from 2002 to 2004, Deputy Head of the State holding department before being appointed Head of Economy Financing at the French Treasury. In March 2009, he was appointed Secretary General of the Financial Markets Authority (AMF). From December 2012 to September 2013, he was executive adviser to the CEO of the French Treasury. He was Deputy General Auditor for Investment from October 2013 until September 2018. Since September 2018 he has been Director of the Cabinet of the Chairman and CEO of the Covea Group

Principal fields of expertise: economics, financial regulation and administration

VÉRONIQUE HUGUES

28 May 1970 • French • Executive director since 2016
Holds no Dexia shares
Chief Financial Officer and member of the Management Board of Dexia
Director and Executive Vice-President of Dexia Crédit Local

Term of mandate: 2017-2021

Biography: Véronique Hugues has a double Master's degree in finance from the University of Paris IX Dauphine and the University Johan Wolfgang Goethe in Frankfurt and a master DESS 203, market finance from the University of Paris IX Dauphine. After beginning her career with Deutsche Bank in Paris, in the ALM department, she joined the Dexia Group in 2001 as Head of Long-Term Funding. She took charge of Financial Communication in 2009 and, in 2013, became Head of Financial Management and director of Dexia Kommunalbank Deutschland and Dexia Sabadell. From 2014 to 2016, she was Deputy CFO of Dexia and a member the Group Committee. With this mandate, she directed various transversal projects within the Finance activity line. Since June 2016 she has been an executive director of Dexia, Chief Financial Officer and member of the Management Board of Dexia and Director and Executive Vice-President of Dexia Crédit Local.

Principal fields of expertise: finance, financial markets, financial communication, change management and transformation processes.

ALEXANDRA SERIZAY

Independent Director
31 March 1977 • French • Non-executive director since 2016
Holds no Dexia shares
Director of Dexia Crédit Local

Term of mandate: 2017-2021

Specialised committees: Chairman of the Audit Committee

Principal function: Global Head of Strategy – Corporate Services at Sodexo

Other mandates and functions: Direcotr of Cofiroute and of AFS (VInce Autoroutes Group)

Biography: Alexandra Serizay is a graduate of the ESSEC. She began her career in 1997 as internal auditor with France Télécom Transpac, and then joined Deutsche Bank in London in 1999 as Associate in M&A. In 2004, she joined Bain in Paris and became Manager in 2007. In 2011, she joined HSBC France, first of all as a member of the Executive Committee of HSBC France, responsible for Strategy, and then in 2013 she became Secretary General of the Executive Committee of RBWM (Retail Banking & Wealth Management) and director in charge of customer development and offers in 2016. She also assumed a mandate within the boards of HSBC REIM France (Real Estate Investment Managers), HSBC SFH France (HSBC covered pool) and HSBC Factoring France. In September 2017 she left the HSBC Group to become Global Head of Strategy at Sodexo.

Principal fields of expertise: audit and finance, mergers and acquisitions, strategy, digital transformation, risk management

MICHEL TISON

Independent director
23 May 1967 • Belgian • Non-executive director since 2016
Holds no Dexia share
Director of Dexia Crédit Local

Term of mandate: 2016-2020

Specialised committees: Member of the Remuneration Committee • Member of the Audit Committee • Member of the Risk Committee

Principal function: Professor of finance law and Dean of the Faculty of Law – Ghent University

Biography: Since 1998 Michel Tison, Doctor of Law, has been an Associate Professor, and then, since 2008, Professor at the Ghent University. He is the author or co-author of numerous publications, concerning banking and finance law. From 2001 to 2014, he was an independent director and Chairman of the Board of Directors of Aphilion Q2 (UCITS) and from 2005 to 2014, member of the Audit Committee of the University Hospital of Ghent. Since 2005, he has been an assessor for the Legislation section of the Council of State.

Principal fields of expertise: banking and finance law, audit

KOEN VAN LOO

26 August 1972 • Belgian • Non-executive director since 2008
Holds 1 Dexia share
Director of Dexia Crédit Local

Term of mandate: 2017-2021

Specialised committees: Member of the Appointments Committee.

Primary function: Chief Executive Officer and member of the Strategy Committee of the Federal Holding and Investment Company.

Other mandates and functions: Director of Certi-Fed SA, Capricorn ICT, Fund SA, Fundo Performa-Key de Inovacao em meio ambiente and Sinnolabs Hong Kong Ltd.

Biography: Koen Van Loo is graduate in applied economics. After gaining a degree in taxation, he began his career as Deputy Adviser to the Central Economic Council. In September 1999, he joined the Office of the Belgian Minister of Finance as an expert. In November 2000, he was appointed Adviser to the Cabinet and was then Head of the Cabinet from May 2003 until November 2006. He was then appointed Chief Executive Officer and a Member of the Strategy Committee of the Federal Holding and Investment Company.

Principal fields of expertise: financial analysis, accounting, taxation and strategy

Observers

In order to respect the mirror composition of the Boards of Directors of Dexia Crédit Local and Dexia, it was decided at the meeting of the Board of Directors held on 29 March 2017, on a proposal by the Appointments Committee, in accordance with article 11 of the articles of association, to appoint Mrs Aline Bec and Mrs Véronique Tai (who are directors of Dexia Crédit Local), as observers of Dexia to attend meetings of the Board of Directors of Dexia and to maintain a level of information equivalent to that of the other directors.

Eligibility criteria

The internal rules of the Board of Directors stipulate that directors are appointed by the shareholders' meeting on the basis of their expertise and the contribution they can make to the administration of the company.
Directors meet the skills profile defined by the Board of Directors based on proposals from the Appointments Committee which are an integral part of the internal rules of the Board of Directors. All members of the Board of Directors must have the time required to fulfil their obligations as a director. Non-executive directors may not consider accepting more than five directorships in listed companies.

Procedure for appointing and assessing members of the Board of Directors

In line with their obligations in particular under CRD IV and its national transpositions, Dexia and Dexia Crédit Local have the procedures in place necessary for checking the expertise and professional integrity of directors, senior executives of the two entities and heads of the independent control function. Fulfilment of these obligations will involve several departments:
• the Human Resources department in charge, on behalf of the Management Board or the Board of Directors, of the selection and recruitment process,
• the Compliance department in charge of checking the integrity of candidates, the absence of conflicts of interest by virtue of other functions or mandates,
• the General Secretariat and the General Auditor, in charge of relations with the regulatory and supervisory authorities.
This check is made at the time of the candidate being recruited and is subject to annual assessment.

Appointment

The Appointments Committee is responsible for making proposals on the appointment of any new director to the Board of Directors, which alone decides whether the application will be submitted to the shareholders' meeting or not. The committee ensures that before considering approval of the application, the Board has received sufficient information on the candidate to enable it to assess whether their appointment is in line with the general profile of directors and the skills required. Each candidate is proposed on the basis of his/her potential contribution in terms of knowledge, experience and specialisation in one or more of the following fields: vision and strategy, leadership and management skills, financial and accounting expertise, international experience and knowledge of the Group's activity lines. The candidate must also have the necessary availability to fulfil his/her obligations as a director. The Board of Directors also ensures that they have the specific skills enabling them to meet the legal criteria of composition and collective or individual expertise within social bodies (including specialised committees).

Resignation

When directors wish to end a term of office early, they send a resignation letter to the Chairman of the Board of Directors who informs the Board at its next meeting. As the case may be, the Board of Directors will provide a provisional replacement for the resigning director by co-opting, and the following shareholders' meeting will make a definitive appointment. If there is a major change in the functions of a director likely to affect their ability to meet the eligibility criteria as defined in the Board's internal rules, they are invited to resubmit their mandate to the company and to provide the Chairman of the Appointments Committee with any useful information.

Assessment

The Board of Directors is organised to achieve the best exercising of its expertise and responsibilities. Each year, in principle, it carries out a self-assessment of its operations and its specialised committees, led by the Chairman of the Board of Directors, in order to make useful changes and improvements to its internal rules. The criteria adopted in making the assessment include the efficiency and frequency of meetings of the Board and the specialised committees, the quality of the information provided to the Board and its specialised committees, the remuneration of members of the Board and its committees, and even the role of the Chairman.
When a director's mandate is renewed, the Appointments Committee makes an assessment of the participation in the Board of Directors' operations and reports on that with a recommendation.
A self-assessment is launched each year based on an individual, anonymous questionnaire covering the composition, organisation, skills, efficiency and performance of the Board and its specialised committees, the frequency of meetings and the information given to directors, the Chairman's role and interactions with the Management Board, and lastly the remuneration awarded to directors.

Changes in the composition of Dexia's Board of Directors in 2018

During the 2018 financial year, the significant changes in the composition of Dexia's Board of Directors were as follows:
• At the Board of Directors meeting held on 29 March 2018, Mr Thomas Courbe was co-opted as a non-executive director of Dexia, replacing Mr Corso Bavagnoli who had presented his resignation on 21 March 2018.
• At the ordinary shareholders' meeting held on 16 May 2018, Mr Thomas Courbe was definitively appointed to the mandate of non-executive director for 4 years ending at the close of the ordinary general meeting for 2022.
• At the ordinary shareholders' meeting held on 16 May 2018, Mr Gilles Denoyel was appointed, to replace Mr Robert de Metz, whose mandate had ended, to the mandate of independent and non-executive director for 4 years ending at the close of the ordinary general meeting for 2022.
• At the Board of Directors meeting held on 6 September 2018, Mr Giovanni Albanese was co-opted with effect as from 1 October 2018 as an executive director of Dexia, replacing Mr Johan Bohets who had resigned. His definitive appointment for a new period of 4 years will be submitted to the general meeting of shareholders to be held on 15 May 2019.
• At the Board of Directors meeting held on 28 November 2018, Mr Bertrand Dumont was co-opted as a non-executive director of Dexia, replacing Mr Thomas Courbe who had

resigned. His definitive appointment for a new period of 4 years will be submitted to the ordinary shareholders' meeting to be held on 15 May 2019.

• It is to be noted that Mrs Claire Cheremetinski was co-opted, subject to approval by the European Central Bank, at the Board of Directors meeting held on 4 February 2019, as a non-executive director of Dexia, replacing Mrs Lucie Muniesa, who had resigned. Mrs Tamar Joulia-Paris was co-opted, subject to approval by the European Central Bank, at the Board of Directors meeting held on 21 March 2019, and with effect as from 22 April 2019, as an independent and non-executive director of Dexia, replacing Mrs Martine De Rouck who had resigned (with effect as at 22 April 2019). Their definitive appointments for a new period of 4 years, will be submitted to the ordinary shareholders' meeting to be held on 15 May 2019.

Non-executive directors

A non-executive director is a director who does not perform executive functions in a company of the Dexia Group. The internal rules of the Dexia Board of Directors provide that at least one half of the Board of Directors are non-executive directors and at least three of the non-executive directors must be independent. It is to be noted that with the exception of Mr Wouter Devriendt, Mr Giovanni Albanese and Mrs Véronique Hugues, all the members of the Dexia Board of Directors are non-executive directors as at 21 March 2019. The non-executive directors are entitled to obtain any information necessary to enable them corretly to execute their mandate and may ask management for such information.

Independent directors

The independence criteria applied to independent directors of Dexia are aligned with the legal criteria set out in Article 526ter of the Companies Code. These criteria, which form an integral part of the internal rules of the Board of Directors, are as follows:
1) For a period of five years preceding their appointment, independent directors may not have held a mandate or a position as an executive member of the Board of Directors, or as a member of the Management Board or delegate for day-to-day management, of Dexia or of a company or a person associated with it in the meaning of Article 11 of the Companies Code;
2) Independent directors may not have sat on the Board of Directors of Dexia as non-executive directors for more than three successive mandates without that period exceeding twelve years;
3) During a period of three years preceding their appointment, independent directors may not have been a member of the management staff;
4) Independent directors may not receive, or have received, remuneration or other significant benefits of an asset nature from Dexia or from a company or a person associated with it in the meaning of Article 11 of the Companies Code, outside any percentages and fees received as non-executive members of the Board of Directors or members of the supervisory body;
5) Independent directors:
a) may not hold any social right representing one tenth or more of the capital, social funds or category of shares of the company.
b) if they hold social rights representing a proportion of less than 10%:
 – by the addition of the social rights to those held in the same company by companies of which independent directors have control, those social rights may not reach one tenth of the capital, social funds or category of shares of the company; or
 – acts of disposal in relation to those shares or the exercising of the rights attached hereto may not be subject to contractual stipulations or unilateral undertakings to which the independent member of the Board of Directors has subscribed.
c) may not in any way represent a shareholder meeting the conditions of the present point.
6) Independent directors may not have entered into or maintained a significant business relationship with Dexia or with a company or person associated with it in the meaning of Article 11 of the Companies Code over the last financial year, either directly or as a partner, shareholder, member of the Board of Directors or member of management staff of a company or person entering into such a relationship;
7) During the last three years, independent directors may not have been a partner or employee of a current or previous auditor of Dexia or an associated company or person associated with it in the meaning of Article 11 of the Companies Code;
8) Independent directors may not be an executive member of the Board of Directors of another company in which an executive director of Dexia is a non-executive member of the Board of Directors or a member of the supervisory body, and may not have other significant ties with the executive directors of Dexia through positions held in other companies or bodies;
9) Independent directors may not, either within Dexia or within a company or person associated with it in the meaning of Article 11 of the Companies Code, have either their spouse, or the person with whom they live under a common law marriage, or an immediate family member or a relative up to two removes exercising a mandate as member of the Board of Directors, delegate for day-to-day management or member of the management staff, or in one of the other cases defined in points 1 to 8.
Any of Dexia's independent directors who no longer meet any of the said criteria, particularly following a major change of their functions, will immediately inform the Chairman of the Board of Directors who will inform the Appointments Committee; the Appointments Committee will inform the Board of Directors and if necessary formulate an opinion.
Considering these criteria, Dexia's Board of Directors had five independent directors as at 31 December 2018, namely Mr Gilles Denoyel, Mr Bart Bronselaer, Mrs Martine De Rouck (until 22 April 2019), Mrs Alexandra Serizay and Mr Michel Tison. AS from 22 April 2019, Mrs Martine De Rouck will be replaced by Mrs Tamar Joulia Paris.
Gender diversity
At least one third of the members of the Board shall be of a different gender to the other members. Four women sit on the Dexia Board of Directors.

Separation of the functions of Chairman of the Board of Directors and Chief Executive Officer

There is a clear separation of responsibilities at the head of the Group between on the one hand the responsibility to lead the Board of Directors by a French director and on the other hand the executive responsibility to lead activities by a Belgian director. The articles of association of Dexia as well as the internal rules of the Board of Directors of Dexia expressly indicate that the Chief Executive Officer cannot perform the tasks of Chairman of the Board.

Term of office

Members of the Board of Directors are appointed for a maximum term of office of four years. Board members can be re-elected.

The number of renewals of mandate for a non-executive director of the company is limited to two. The age limit for directors is 72. The directors concerned resign with effect from the date of the ordinary shareholders' meeting following their birthday.

Board of Director's remits and responsibilities

The Board of Directors is the corporate body which, subject to the powers expressly granted to the shareholders' meeting and within the limits of the corporate object, on a proposal or opinion received from the Management Board, sets the strategy and general policy of the company and the Dexia Group. It controls and directs the management of the company and of the Group and monitors risks. Regarding principles, the Board of Directors defines the strategy and Group standards and sees to the implementation of that strategy at Group level and in its main operating entities. The Board ensures that the principles of good governance are observed.
In particular, the Board:
a. examines the major proposals made by the Management Board, in charge of the effective management of the company, and presented to it by the Chief Executive Officer, as well as those proposed by the specialised committees;
b. determines the strategy of the Dexia Group, within the context of the revised orderly resolution plan, which is implemented by the Management Board, sets priorities, approves the annual budget and, more generally, ensures the balance between the strategy defined and the human and financial resources required.
c. sets a reference internal control framework and assesses the implementation, by the Group, of independent control functions, which in particular include risk management, internal audit and compliance procedures on a centralised basis;
d. assesses compliance risks and validates reports from the Compliance and Permanent Control department. It also validates compliance policy and the key policies in terms of compliance;
e. takes the measures required to ensure the elaboration, integrity and publication of the financial statements;
f. proposes appointments or renewals of directors to the shareholders' meeting as well as the co-opting of directors. It also proposes the appointment or renewals and the remunersation of the auditors to the shareholders' meeting.
g. at least once per annum, adopts and assesses the general principles of remuneration policy and ensures its implementation;
h. sets the remuneration for Management Board members on the recommendation of the Remuneration Committee and the recommendation of the Chairman of the Management Board for Management Board members other than himself;
i. periodically assesses the Board of Directors and justifies the individual and collective skills of the members of the specialised committees in the annual report;
k. assesses the performance of the Management Board members; supervises the performance of the Statutory Auditor(s) and internal auditors;
l. defines the organisation of advisory and specialised committees with regard to their composition, mode of operation and obligations;
m. defines the organisation of the Management Board in terms of its composition, mode of operation and obligations on the recommendation of the Chairman of the Management Board;
n. examines the governance mechanism, periodically assesses its effectiveness and ensures that corrective measures have been taken to remedy any shortcomings;
o. ensures implementation of the Governance Memorandum and the transmission of updates to the supervisory authorities;
p. checks implementation by the Management Board of the company's general policy, which it determines.
The Board of Directors ensures that its obligations to all shareholders are understood and fulfilled, and reports to the shareholders on the exercising of its responsibilities at shareholders' meetings.

Operation of the Board of Directors

Articles of association

The company's articles of association set forth the following rules that govern the Board of Directors' operations:
• All deliberations require the presence or representation of at least half of the members of the Board;
• Decisions are adopted by a majority vote of all members present or represented;
• Decisions concerning the operations described below require the presence or representation of at least two thirds of the members of the Board, and a two thirds majority of all the members present or represented:
– Acquisition or disposal of assets with a gross unit value above EUR 500 million;
– Proposals to amend the company's articles of association, including with regard to the issuing of shares, bonds which are convertible or redeemable in shares, warrants or other financial instruments giving a future right to shares;
– Appointment and dismissal of the Chairman of the Board of Directors and the Chief Executive Officer;
– Decision to increase capital within the framework of the authorised capital;
– Appointment of directors within the Board of Directors of Dexia Crédit Local, to the extent that the decision might relate to the appointment of other persons than directors of the company and a different number of directors to that of the Board of Directors of Dexia; and
– Decision to amend the internal rules of the Board of Directors.
The Board of Directors may, on an ad hoc basis or generally, invite observers to attend its meetings. These observers do not have a deliberative vote and are bound by the same obligations, particularly of confidentiality, as the directors.

Internal rules of Dexia's Board of Directors

The internal rules of Dexia's Board of Directors codify a set of rules intended to enable the Board to fully exercise its powers and enhance the efficiency of the contribution made by each director.

General organisational principles

The Board of Directors is organised to achieve the best performance of its expertise and responsibilities.
The Board's meetings are frequent enough to allow the Board to perform its tasks. Board members commit to participate actively in the work of the Board and the committees on which they sit. Attendance at meetings of the Board and committees is the first condition of this participation and effective attendance at three quarters of the meetings at least is expected.

The agenda lists the items to be discussed and states if they are listed for information purposes, for discussion, or for a vote.
The minutes report discussions and record the decisions made, specifying reservations issued by some directors, if applicable.

Duty of confidentiality

The information provided to the directors in the performance of their duties, during Board meetings, meetings of the specialised committees, or during private interviews, is given on an *intuitu personae* basis; they shall ensure that the confidentiality of such information is strictly maintained.

Training of Board members

The Chairman of the Board of Directors ensures that, as necessary, directors receive training on the Group's activities when they take up office and during the term of their mandate in order to be able to exercise their responsibilities properly.

Conflicts of interest

The directors ensure that their participation in the Board of Directors is not a source of any conflict of interests for them in the sense of the applicable regulations.
Directors submit their mandate to the Board if there is a significant change in their duties and the Board decides whether to accept their resignation in such cases, after an opinion from the Appointments Committee. They must resign if a change in their situation creates any incompatibility with their office as a director of Dexia.
If any directors directly or indirectly have a conflicting financial interest in a decision or operation to be decided by the Board of Directors, they must inform the other members of the Board before they deliberate. Their declaration, including the reasons for their conflicting financial interest, must be recorded in the minutes of the Board meeting that will make the decision. In addition, they must inform the company's statutory auditors. They may not participate in the Board of Directors' deliberations in relation to the transactions or decisions concerned, or vote on them.
For publication in the annual management report, the Board of Directors describes in the minutes the type of decision or operation in question and the reasons for the decision made and the financial consequences for the company.

Transactions in Dexia financial instruments

In order to promote the transparency of transactions in Dexia financial instruments, the internal rules stipulate that all Dexia directors have "permanent insider" status in view of their regular access to inside information on Dexia. Executive directors, as well as some non-executive directors, including the members of the Audit Committee, who have access to the estimated consolidated results of Dexia, are thus entered in the list of "estimated consolidated results insiders". Moreover, within the context of certain specific projects, directors may have access to inside information on Dexia in relation to its projects, and they are entered in the list of "occasional insiders".
In view of their "permanent insider" status, directors:
- Will refrain from deciding on any transaction on Dexia financial instruments during a one-month period prior to the announcement of the quarterly, half-year or annual results;
- Must obtain prior authorisation from the Chief Compliance Officer before any transaction in Dexia financial instruments.

Directors with the status of "estimated consolidated results insiders" are subject to a statutory restriction period associated with estimated results and will refrain from deciding on any transactions in Dexia financial instruments during a negative trading window commencing 15 days prior to the accounting closing date and ending on the date when the results are published. Moreover, they must obtain authorisation from the Chief Compliance Officer before any transaction in view of their "permanent insider" status.
Directors entered in the list of "occasional insiders" may not, during the time they are in the list, decide on any transaction on Dexia financial instruments.
Directors and persons who are closely associated with them are required to notify the FSMA of transactions on Dexia financial instruments carried out on their own behalf. Transactions notified are automatically published by the FSMA on its website.
Directors must declare to the Chief Compliance Officer:
- At the time of their entry into office, all the Dexia financial instruments they hold;
- At the end of each year, an update to the list of Dexia financial instruments they hold.

The rules and restrictions relating to transactions on Dexia financial instruments described above are applicable for directors and persons closely associated with them. They also apply to observers as defined in Dexia's articles of association.

Operation and activities of Dexia's Board of Directors during the 2018 financial year

Attendance by directors

The Board met 14 times in 2018. The directors' attendance rate at Board meetings was 93.6%.

ATTENDANCE RATE OF EACH DIRECTOR AT MEETINGS OF THE BOARD OF DIRECTORS

Giovanni Albanese(1)	100%
Corso Bavagnoli(2)	66%
Johan Bohets(3)	90%
Bart Bronselaer	100%
Thomas Courbe(4)	50%
Alexandre De Geest	100%
Robert de Metz(5)	100%
Gilles Denoyel(6)	100%
Martine De Rouck	100%
Wouter Devriendt	100%
Bertrand Dumont(7)	100%
Thierry Francq	93%
Véronique Hugues	100%
Lucie Muniesa(8)	100%
Alexandra Serizay	100%
Michel Tison	100%
Koen Van Loo	93%

(1) Co-opted with effect as from 1 October 2018.
(2) Resigned on 21 March 2018.
(3) Resigned on 30 September 2018.
(4) Appointed on 29 March 2018 and resigned on 3 October 2018.
(5) End of mandate on 16 May 2018.
(6) Appointed on 16 May 2018.
(7) Co-opted on 28 November 2018.
(8) Resigned on 30 October 2018.

Activities of the Board of Directors

In addition to matters falling within the ordinary remit of the Board of Directors (monitoring results, approving the budget, appointment and remuneration of Management Board members, convening of ordinary and extraordinary shareholders'

meetings, minutes of specialised committee meetings), the Board dealt in particular with numerous subjects from the Audit and Risk Committee, and the following points:
• Preparation of the strategic plan for the European Central Bank;
• Dexia Group solvency and capital relief measures;
• Group liquidity, long-term VLTM, ICAAP funding projections;
• Strategic and IT projects, operational risk management;
• First application of the IFRS 9 accounting standard;
• Asset disposal policy;
• Disposal of Dexia Kommunalbank Deutschland;
• Contribution to the Single Resolution Fund;
• Governance: appointing new directors, renewing directors' mandates, succession of the General Auditor and the self-assessment exercise for the Board of Directors and specialised committees;
• Executive remuneration report;
• Policies of compliance, internal audit, exercise of outside mandates.

Conflicts of interest

As already indicated above, if a director or a member of the Management Board, directly or indirectly, has an interest which conflicts with the financial nature of a decision or an operation by the Board of Directors or the Management Board, they must inform the other directors or members of the Management Board prior to the deliberation of the Board of Directors or the Management Board. Their declaration, as well as the reasons for the conflicting interest which exists, must appear in the minutes of the meeting of the Board of Directors or the Management Board which has to take the decision.
During the financial year closed on 31 December 2018 the Board of Directors did not make use of the procedure provided in Articles 523 and 524 of the Companies Code which deal with conflicts of interest.
Nevertheless, the remuneration of the Chairman of the Board of Directors was discussed by the Remuneraton Committee and decided by the Board of Directors on 30 May 2018, Mr Denoyel not having taken part in the deliberations. This remuneration is in line with the principles established in this regard on 2 August 2012 within the framework of the Board of Directors remuneration policy, which remains unchanged. This remuneration appears moreover in the remuneration report, which is a separate part of the Corporate Governance Declaration.

Specialised committees set up by the Board of Directors

Specialised committees are responsible for preparing Board decisions, this remaining their only responsibility. Unless the Board gives special dispensation on dedicated subjects, specialised committees have no decision-taking power. These committees are composed of directors appointed by the Board of Directors for a period of two years renewable. After each meeting, a report on the committee's work is presented to the Board of Directors.
The Board of Directors has four specialised committees, namely the Audit Committee, the Risk Committee, the Appointments Committee and the Remuneration Committee in accordance with the requirements of the Companies Code. These committees are composed of at least three non-executive directors appointed by the Board of Directors.

Audit Committee

In accordance with Article 526bis of the Companies Code and Article 27 of the Banking Law[1], the Audit Committee is composed of non-executive directors, and a majority of independent members, including the committee chairman, who meet the criteria set out by Article 526ter of the Companies Code.
The members of this committee have collective skills in the fields of activity of the Dexia Group and accounting and audit, and at least one member is skilled in audit and/or accounting.
As at 31 December 2018, the Audit Committee was composed of:
• Mrs Alexandra Serizay, independent director and chairman of the Audit Committee. She has professional experience in audit and financial analysis, acquired in particular as head of internal audit at France Télécom Transpac and HSBC France as a member of the executive committee. In addition, as Secretary General of HSBC France, she was in charge of financial guidance and a member of the Risk Management Committee of the bank HSBC France. From 2013 to 2017 she also sat on the Risk Management Committee of Retail Banking at HSBC France;
• Mr Bart Bronselaer, independent director. Over the course of his professional career, particularly with Merrill Lynch International, where he held the post of Head of European Bond Markets, and Royal Park Investments as Chairman of the Board of Directors, he acquired experience in risk management and on the capital markets, skills essential for a good understanding of the activities of the Dexia Group;
• Mr Thierry Francq, non-executive director. He was Secretary General of the Financial Markets Authority (AMF) and had a long career in the French Treasury, enabling him to acquire skills in financial regulation, management, finance and risk management. In particular, he was responsible for banking sector regulatory matters, insurance and financial markets for 5 years at the Treasury (between 2004 and 2009). In office when the financial crisis arose in 2008, he played a key role in implementing the mechanisms to support the financial sector in France. From 2009 to 2012, in his position within the Financial Markets Authority, he acquired experience in corporate governance, financial communication and accounting. Previously, as Head of State Holdings, he held posts as non-executive director in several companies, some of them listed;
• Mr Michel Tison, independent director, is Professor of finance law and Dean of the University de Ghent. He has sound expertise in banking and finance law and valuable experience as a member of the Audit Committee of the Ghent University Hospital.

Activities during the 2018 financial year

The Audit Committee met six times in 2018 and dealt in particular with the following matters:
• Group financial statements;
• Reports on risks, liquidity, audit, compliance and permanent control;
• Budget;
• Relations with European supervisors;
• ICAAP;
• Updating long-term VLTM financial projections;
• First application of the IFRS 9 accounting standard;
• Renewal of the mandate of external auditors;
• Succession of the Chief Compliance Officer;
• Monitoring recommendations from the internal auditors, external auditors and supervisors;
• First Contribution to the Single Resolution Fund.

(1) Law of 25 April 2014 on the status and control of credit institutions.

Attendance of each individual director

The individual attendance rate for directors at meetings of the Audit Committee was 95.8% in 2018.

ATTENDANCE RATE OF EACH DIRECTOR AT MEETINGS OF THE AUDIT COMMITTEE

Bart Bronselaer	100%
Thierry Francq	100%
Alexandra Serizay	100%
Michel Tison	83.3%

Remit

The Audit Committee is responsible for monitoring the annual accounts, and establishes the financial information process. It examines the Dexia Group's draft annual, half-year and quarterly statutory and consolidated financial statements, which must then be presented, approved and published by the Board of Directors. It examines all matters relating to those accounts and to the financial reports and in particular, from the documents submitted to it, the conditions for their preparation, 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 as monitors the efficiency of the internal audit and risk management systems. It also examines the independence of the external auditor in particular regarding the provision of additional serices.

Operation

The Audit Committee meets at least twice per year. Each meeting must take place before the meeting of the Board of Directors which analyses and if necessary approves the quarterly, half-yearly and annual accounts, as the case may be. It may meet at any time on the request of one of its members.
The Audit Committee's remit and operations are described in the Board of Directors' internal rules.
The Audit Committee may if necessary ask for assistance from an internal or external expert. Moreover, in order to improve the reading of files by directors in the company's corporate interest, the Board of Directors invites all the members of the Board of Dexia Crédit Local to attend meetings of the Audit Committee.

Risk committee

In accordance with Article 27 of the Banking Law(1), the Risk Committee is composed exclusively of non-executive directors, and at least one independent director, including the chairman of the Risk Committee, within the meaning of Article 526ter of the Companies Code. It must have sufficient skills in the fields of activity of the Dexia Group enabling it to understand the Group's risk strategy and level of tolerance.
As at 31 December 2018, the Risk Committee was composed as follows:

- Mr Bart Bronselaer, independent director and chairman of the Risk Committee. He has sound expertise in market risk and risk management acquired during his career, particularly with Merrill Lynch International, where he held the post of Head of Strategic Solutions for Europe, and Royal Park Investments as Chairman of the portfolio Management Committee;
- Mr Alexandre De Geest, non-executive director. He has sound expertise in financial regulation, corporate governance, finance and risk management. Adviser to the Cabinet of the Federal Minister of Finance for 11 years, he has been a member of the Strategy Committee of the Debt Agency since 2003, and chaired this committee since April 2016. He monitored various financial subjects, including Dexia, KBP, RPI and Arco and was a member of the committee monitoring financial guarantees granted to financial institutions. For 3 years, he was Government Commissioner to the Fund for Protection of Deposits and Financial Instruments. Between 2012 and 2016, he was director of the general Treasury administration and ran the management board of the State Debt Agency. Since April 2016 he has been CEO of the Treasury administration and a member of the management board of SPF Finances. His experience brings an enriching expertise to the risk committee;
- Mr Michel Tison (until 22 April 2019), independent director. Professor of finance law and Dean of the Université de Gand. He has sound expertise in European and national banking law, in particular in the field of prudential regulation, banking operations and financial instruments.
- Mr Bertrand Dumont was appointed on 4 February 2019 as a member of the Risk Committee replacing Mrs Lucie Muniesa, who had resigned. He has sound expertise in risk management acquired in particular within the context of his funcions as Head of Prudential Management at HSBC, where particularly he supervised and assessed the various financial and commercial risks (risk mapping, liquidity and capital risk, reputational risk) and was also responsible for the HSBC Recovery Plan, including a view of all the different risks which the institution might have to face.

As from 22 April 2019, Mrs Tamar Joulia Paris will sit on the Risk Committee in place of Mr Michel Tison.
Mrs Tamar Joulia-Paris has relevant experience in risk management with the financial sector, the impact of prudential regulations and the optimisation of balance sheets and portfolios.

Activities during the 2018 financial year

The Risk Committee met seven times in 2018 and dealt in particular with the following matters:

- Quarterly risk reports (market, credit, operational and legal risks);
- Reorganisation of Permanent Control
- Impacts of the Basel IV regulations
- IRBA ;
- Review of the audit and inspection plan;
- TRIM;
- Permanent control and compliance work;
- Updating ICAAP recommendations;
- EBA 2021 new definition of default;
- Wrong Way Risk Policy;
- Credit risk models;
- Updating Risk Appetite Framework;
- Updating liquidity policy;

Attendance of each individual director

The individual attendance rate for directors at meetings of the Risk Committee was 91% in 2018.

ATTENDANCE RATE OF EACH DIRECTOR AT MEETINGS OF THE RISK COMMITTEE

Bart Bronselaer	100%
Michel Tison	100%
Alexandre De Geest	87%
Lucie Muniesa(1)	70%

(1) Resignation effective as from 30 October 2018.

(1) Law on 25 April 2014 on the status and control of credit institutions.

Remit

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 also deals with any observations and recommendations from the supervisory authorities in matters falling within its competence.

Operation

The Risk Committee determines the nature, volume, form and frequency of information concerning risks to be sent to it. It has direct access to the Chief Risk Officer and may take the advice of external experts.

The remit and operations of the Risk Committee are described in the internal rules of the Board of Directors.

The Chief Executive Officer may attend meetings of the Risk Committee, without being a member. The Risk Committee may invite members of the Management Board to take part in its work. If necessary, it may also be assisted by an expert. The Chairman of the Risk Committee ensures that its members can meet in the absence of any representative of management.

Joint meetings of the Audit and Risk Committees

The Audit and Risk Committees meet whenever necessary to deal with common subjects together, on convocation by the Chairman of the Board of Directors and the Chairman of the Audit Committee and the Risk Committee if need be.

Such joint meetings are chaired by the Chairman of the Audit Committee.

The audit and risk committees met together once and dealt with the following subjects:

- First application of the IFRS 9 accounting standard;
- The National Bank of Belgium inspection on market risks ;
- The review of stress scenarios within the framework of the strategic plan;
- Passage to the standard approach;
- SREP letter;
- Budget 2019 and VLTM projections.

Appointments Committee

Composition

The Appointments Committee is composed of at least three non-executive directors, including the Chairman of the Board of Directors. The 2009 Code provides that the committee is composed of a majority of independent directors. At present, the Appointments Committee consists of two independent directors among four members in total. The composition of this committee is currently being reviewed. 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.

As at 31 December 2018, the composition of the Appointments Committee was as follows:

- Mr. Gilles Denoyel, independent director and chairman of the committee. He has sound expertise in banking, finance and asset management, completed by experience of corporate management at an international level. He occupied managerial posts in the performance of his tasks for the French Treasury where he was head of several teams of different sizes and then at HSBC where he successively occupied the posts of finance director, secretary general, deputy chief executive officer in charge of Finance and then deputy chief executive officer. He acquired experience of corporate governance by attending management boards and boards of directors of HSBC in the performance of directors' mandates in the companies AGF, Usinor, Pechiney and Naval Group.
- Mr Thierry Francq, non-executive director. He has sound judgement in matters of appointments, acquired over his career as a senior executive with the French Treasury. In managing the French State's portfolio of holdings, he had to rule on many appointments to highly responsible posts in several companies. As General Secretary to the Financial Markets Authority, he supervised the corporate governance of companies listed in Paris.
- Mr Koen Van Loo, non-executive director. He has been a member of the Appointments Committee of Dexia since 2013. As Chief Executive Officer of the Federal Holding and Investment Company (FHIC), which manages all Federal State holdings, and as the former Chief of the Cabinet of the Vice-Prime Minister and the Minister of Finance, he acquired experience in the organisation and composition of Boards of Directors, as well as appointments and the management of human resources. He also gained experience in corporate management as non-executive director of several companies held by the Belgian Federal State or the FHIC.
- Mrs Martine De Rouck (until 22 April 20190, independent director. The experience she acquired during her career in the banking sector, in particular as an executive (CEO) of various companies (Fortis Bank e-banking France, La Banque de la Poste, BCC Corporate) and the performance of directors' mandates in particular with Orange Belgium, will add an additional valuable expertise to the Appointments Committee.

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

Remit

The Appointments Committee prepares decisions of the Board of Directors concerning:

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

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

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

Operation and activities during the 2018 financial year

The Appointments Committee met nine times in 2018 and dealt in particular with the following matters.

- Governance: evolution of the composition of the Board of Directors, specialised committees and the Management Board of Dexia and Dexia Crédit Local;
- The appointment of new directors, the Chairman of the Board of Directors and members of the Management Board;
- The annual report and the remuneration report;
- Assessing the skills of members of the Board of Directors and of the specialised committees;
- Succession of the Chief Risk Officer;
- Succession of the Chief Compliance Officer.

Attendance of each individual director

The individual attendance rate of directors at meetings of the Appointments Committee was 90.8% in 2018.

ATTENDANCE RATE OF EACH DIRECTOR AT MEETINGS OF THE APPOINTMENTS COMMITTEE

Robert de Metz(1)	100%
Gilles Denoyel(2)	100%
Thierry Francq	77.8%
Koen Van Loo	77.8%
Martine De Rouck	100%

(1) End of mandate 16 May 2018.
(2) Member since 16 May 2018.

The Remunerations Committee

Composition

In accordance with Article 526d of the Companies Code and Article 27 of the Banking Law(1), the Remuneration Committee is composed of at least three non-executive directors, including the Chairman of the Board of Directors and a majority of independent directors. The Chief Executive Officer and the Head of Human Resources attend meetings, without being members.

The Remuneration Committee must have the necessary expertise enabling it to make pertinent and independent judgments on remuneration policies and practices.

The Remuneration Committee meets at least twice per annum, including in principle at least once prior to the meeting of the Board of Directors validating the management report for the financial year. It may also meet more frequently during the year, on the substantiated request of one of its members.

As at 31 December 2018, the Remuneration Committee was composed as follows:

- Mrs Martine De Rouck (until 22 April 2019), independent director and chairman of the Remuneration Committee (cf. above).
- Mr Gilles Denoyel, independent director (cf. above).
- Mr Michel Tison, independent director, has relevant experience gained in the exercise of his mandates in various companies and has in-depth knowledge of applicable legal provisions, particularly regarding remuneration.
- Mr Alexandre De Geest, non-executive director. He has sound expertise in financial regulation, corporate governance, finance and risk management. Councillor of the Federal Ministry of Finance for 11 years, he has been a member of the strategic committee of the Debt Agency since 2003. He has been chairman of that committee since April 2016. He has monitored various financial subjects, including Dexia, KBP, RPI and Arco and was a member of the monitoring committee for financial guarantees granted to financial institutions. For 3 years, he was government auditor with the Fonds de protection des dépôts et des instruments financiers. Between 2012 and 2016, he was director of the Belgian Federal Public Service Finance (FPS Finance) and head of the Executive Committee of the Belgian Debt Agency. Since April 2016, he has been general administrator and member of the Management Board of FPS Finance.
- Mrs Claire Cheremetinski was appointed on 4 February 2019 as a member of the Remunerations Committee replacing Mrs Lucie Muniesa, who had resigned. She has relevant experience acquired within the context of performing her mandates in various companies. She has regularly trained teams as part of her functions within the general management of the Treasury and the French Government Shareholding Agency. She has a DESS in human resources management.

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

(1) Law of 25 April 2014 on the status and control of credit institutions.

Remit

The Remuneration Committee prepares decisions of the Board of Directors on the remuneration of the Chairman of the Board of Directors, the Chief Executive Officer and the members of the Management Board.

The Remuneration Committee passes an opinion on the company's remuneration policy and any amendments made to it. It prepares decisions on remuneration and, in particular, those which might have repercussions on risk and risk management. It also prepares and supervises decisions relating to the remuneration of people in charge of independent control functions. The Remuneration Committee submits a remuneration report to the Board of Directors for approval by the shareholders' meeting.

Operation and activities during the 2018 financial year

The Remuneration Committee met eight times in 2018 and dealt in particular with the following matters:

- Remuneration of directors;
- Terms of remuneration of the Chairman of the Board of Directors;
- Succession of the Chief Risk Officer;
- Succession of the Chief Compliance Officer.

Attendance of each individual director

The individual attendance rate of directors at meetings of the Remunerations Committee was 100% in 2018.

ATTENDANCE RATE OF EACH DIRECTOR AT MEETINGS OF THE REMUNERATIONS COMMITTEE

Martine De Rouck	100%
Alexandre De Geest	100%
Robert de Metz(1)	100%
Gilles Denoyel(2)	100%
Lucie Muniesa(3)	100%
Michel Tison	100%

(1) End of mandate 16 May 2018.
(2) Member of the Committee since 16 May 2018.
(3) End of mandate 30 October 2018.

The Dexia Management Board

The Management Board is instructed by the Board of Directors, which delegates power to it for that purpose, in accordance with Article 524bis of the Companies Code, for the effective management of the company.

Composition

The members of the Management Board, other than the Chief Executive Officer, are appointed and dismissed by the Board of Directors on the proposal of the Chief Executive Officer. They are appointed for a renewable four-year period unless there is a decision to the contrary by the Board of Directors.
As at 31 December 2018, the Management Board is composed of:

- **Wouter Devriendt**, Chief Executive Officer
- **Véronique Hugues**, Chief Financial Officer
- **Guy Cools**, in charge of Assets
- **Giovanni Albanese**, Chief Risk Officer
- **Benoît Debroise**, in charge of Funding and Markets
- **Aline Bec**(1), Chief Operating Officer

The composition of the Management Board of Dexia and Dexia Crédit Local is identical.
The Compliance, General Secretariat and Strategy, Human Resources and Internal Audit functions report directly to the Chief Executive Officer.

Remit

In accordance with Article 524bis of the Companies Code, the Management Board is entrusted with the management of the company and of the Dexia Group, for which it manages and coordinates the various activity lines, in the context of the strategic objectives and the general policy defined by the Board of Directors. In addition, it ensures the execution of the decisions taken by the Board of Directors.

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

Operation

Since the creation of Dexia in 1999, the Management Board has had its own internal rules (the « Regulations »), amended on several occasions, determining its responsibilities and how it operates. In addition to rules governing the composition of the Management Board (see above), the Regulations include the following rules:

• Rules relating to the responsibilities of the Management Board in its dealings with the Board of Directors

The Regulations first define the Management Board's responsibilities in its dealings with the Board of Directors. The Management Board may formulate a preliminary opinion regarding any proposals debated by the Board of Directors or the specialised committees relating to the Group's strategy or general policy, whether these proposals are made by the Chief Executive Officer or other directors. It may make recommendations to the Board of Directors through the Chief Executive Officer.
If the Chief Executive Officer takes part in discussions by the Board of Directors or its specialised committees, for which the Management Board has an acknowledged right of opinion or initiative, the Chief Executive Officer presents to and defends within the Board of Directors the points of view previously debated by the Management Board.

• Rules relating to decision-taking

The Management Board operates on a collegial basis and its decisions result from a consensus of its members. It assumes joint responsibility for such decisions. If applicable,

The Management Board, from left to right: Benoît Debroise, Guy Cools, Véronique Hugues, Giovanni Albanese, Wouter Devriendt and Aline Bec.

the Chairman of the Management Board may, on his own initiative or on request from two other members, submit the issue under debate to a vote. Resolutions are passed by a majority vote of all members present or represented. In the event of a tied vote, the Chairman will cast the deciding vote. In exceptional cases, decisions may be taken by the Management Board in writing with the unanimous consent of its members.

• Rules relating to meetings

Management Board meetings are convened by its Chairman, in principle once a week. If necessary, meetings can be convened at any time by the Chairman or if two or more members so desire. Any member of the Management Board who is unable to attend may be represented by another member of the Board, but a member may not represent more than one other member. Each member of the Board may propose an item for the agenda, which is set by the Chairman.

• Conflicts of interest

Notwithstanding any legal or regulatory obligations, a member of the Management Board who directly or indirectly has a conflicting financial interest in a decision or operation to be decided by the Board must inform the other members of the Board before they deliberate. The member in question's declaration, including the reasons for the conflicting financial interest, must be recorded in the minutes of the Management Board meeting scheduled to take the decision. The Management Board member must inform the company's statutory auditors. This member cannot participate in the Management Board's deliberations in relation to the transactions or decisions concerned, or vote on them.

• Transactions in Dexia financial instruments

The Management Board's internal rules were amended in order to update the rules relating to the prevention of insider trading in relation to Dexia financial instruments.

The diversity policy applied to members of the Board of Directors and the Management Board

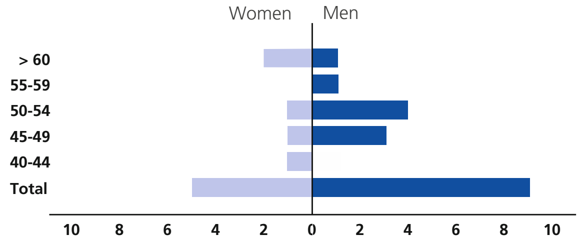
The question of the diversity of members of the Dexia Board of Directors and Management Board is dealt with in the Dexia Group on two lines:

• Diversity regarding skills and training, in order to ensure that, together or individually, the members of the management bodies have the knowledge and skills necessary for an understanding of the Dexia Group's activities and the issues facing the Group;

• Observance by Dexia of the legal requirements regarding the representation of women on the Board of Directors.

The Appointments Committee, with the Human Resources department, assess the appropriateness of the skills and experience of members of the executive and non-executive management. It ensures that the diversity criteria are met and if necessary prepares job sheets for posts to be filled, and draws up succession plans integrating such diversity criteria.

AGE PYRAMID – BOARD OF DIRECTORS AND MANAGEMENT BOARD AS AT 31 DECEMBER 2018



Representation of women

In order for the Board of Directors to be composed in a balanced manner regarding the representation of women, and in accordance with the applicable provisions, the Board of Directors(1) adopted an action plan to achieve the objective set by Article 518 bis of the Companies Code(2). To that end, each director undertook to make their mandate available to the Board of Directors on the latter's express request to allow the appointment of a female director. The enlargement of the Board of Directors to 13 members(3), also enabled women to be appointed. To date, the Board of Directors is composed of 13 members of which 4 are women, and the Management Board is composed of 6 members of which 2 are women.

The legal obligation in relation to the diversity of the Board of Directors was not fulfilled between the date of resignation of Mrs Lucie Muniesa on 30 October 2018 and the appointment of Mrs Claire Cheremetinski on 4 February 2019. Between those dates, the Board of Directors was composed of 12 directors of which 3 are women, when then should have been 4. Article 518bis of the Companies Code provides in this case that the next director appointed must be a woman. The Board of Directors nonetheless decided to co-opt Mr Bertrand Dumont on 28 November 2018 to replace Mr Thomas Courbe, who had resigned on 3 October. His being co-opted, which had already been examined by the Appointments Committee prior to the resignation of Mrs Lucie Muniesa, came within the viewpoint of appointment, for a short time, of a woman to replace Mrs Lucie Muniesa in order to re-establish the requisite diversity, the appointment of Mr Dumont enabling the Board of Directors to operate properly.

Expertise and professional skills

Dexia ensures that the members of the management bodies have the appropriate individual and collective skills for the proper performance of their tasks. Dexia ensures that directors and members of the Management Board together and individually have the professional experience and qualifications necessary to understand the Group's activities and its issues it faces.

The Appointments Committee, on the appointment of new members of the Board of Directors and the Management Board, makes an individual assessment during which account

(1) At is meeting of 18 February 2015.
(2) In application of Article 518 bis of the Companies Code, at least one third of the members of the Board of Directors must be of a gender different to that of the other members. For application of the present provision, the minimum required number of those members of a different gender is rounded to the closest round number.
(3) As decided by the shareholders' meeting on 18 May 2016.

is taken of the professional experience, technical skills and training of candidates. The prior approval of the supervisory authorities is also obtained before any appointment, renewal or dismissal of a member of the Management Board or the Board of Directors.
The Board of Directors and the Management Board periodically perform self-assessment exercises. The points dealt within are in particular the structure, size, composition and organisation of work (performances and knowledge of members). The collective and individual skills of members of the Management Board, specialised committees and the Board of Directors are also assessed annually. At the end of that assessment and when it proves to be necessary, an inventory of additional skills which might be strengthened on the appointment of new members is also drawn up. By way of example, a head of Operations was appointed within the Management Board in order to strengthen the skills of the Management Board in that regard. That inventory of additional skills is taken into account in the establishment of succession plans by the Appointments Committee.

Transaction Committee

In line with the objectives of the orderly resolution plan and to simplify the operational conduct of the Dexia Group, on 3 April 2014 Group management approved the creation of a new transversal committee called the "Transaction Committee".
In accordance with the delegations made by the Management Board, the task of the Transaction Committee is to approve each individual transaction which might have an impact on the risk and/or financial profile of the Group and its entities, including international subsidiaries and branches. It replaces the Credit committee and the Finance and Liquidity Committee. The Transaction Committee meets on a weekly basis and includes the heads of the Assets, Funding and Markets, Finance, Risk and General Secretariat activity lines. It reviews every proposal concerning the sale or restructuring of assets and analyses the expected impacts in relation to criteria validated by the Management Board. A process of escalation to the Management Board is provided in the case of non-alignment of members of the committee to a transaction.

The ALCO Committee

On 27 March 2017, the Management Board of the Dexia Group approved the creation of a transversal committee called the "ALCO Committee". The ALCO Committee is responsible, by virtue of the delegations granted by the Management Board, for approving certain decisions associated with balance sheet management. In particular, the ALCO Committee approves the funding plan and ALM limits and reviews the risk indicators regarding interest and exchange rates. It delegates the operational implementation to local ALCO committees. The ALCO Committee meets monthly and includes the heads of the Finance, Risk, Funding and Markets and Assets activity lines.

Remuneration report

Remuneration of Dexia directors for 2018

Review of the principles applied

Dexia's 2006 ordinary shareholders' meeting decided to pay an annual maximum global remuneration amount of EUR 1,300,000 to the directors for their services, effective as from 1 January 2005.
The shareholders' meeting also authorised the Board of Directors to determine the practical procedures of this remuneration, which comprises a fixed amount and attendance fees and its allocation.
Since 1 January 2015, the remuneration of non-executive directors (excluding the Chairman of the Board of Directors) consists of a fixed remuneration of EUR 3,000 per quarter (consolidated at the level of the Board of Dexia Crédit Local as mentioned in the table below) and attendance fees of (EUR 2,000 for meetings of the Dexia Boards, EUR 1,000 for meetings of the Audit Committee and the Risk Committee, and EUR 750 for meetings of the Boards of Dexia. The Chairman of the Audit Committee and the Risk Committee is remunerated for his position (attendance fees are EUR 1,500 per meeting).
Furthermore, an annual global ceiling is defined in the sense that a maximum number of meetings will be remunerated.
Non-executive directors receive no performance-related remuneration, such as bonuses or long-term incentives, or any benefits in kind or benefits associated with pension plans.

Remuneration paid to the Chairman of the Board of Directors

On 2 August 2012, on a proposal from the appointments and remuneration committee, the Board of Directors set the gross remuneration of the Chairman of the Board of Directors at an overall fixed annual amount of EUR 250,000.

Remuneration paid to the Chief Executive Officer

The Chief Executive Officer does not receive any remuneration for his position as a director. However, he is remunerated for his responsibilities as Chief Executive Officer and Chairman of the Management Board (cf. below).

REMUNERATION PAID TO DIRECTORS FOR THE EXERCISE OF THEIR MANDATE WITH DEXIA AND IN OTHER GROUP ENTITIES

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

(1) The attendance fees of representatives of the French government are paid in accordance with Article 5 of Order 2014-948 of 20 August 2014.
(2) Independent directors.
(3) Including remunération received for the director's mandate in Dexia Crédit Local.

Payment of social security contributions for certain directors

In Belgium, all Dexia directors are considered to be self-employed workers and must therefore join an independent workers' pension scheme and, in principle pay social security contributions. Some directors already benefit from social insurance under another system and may therefore be required to pay contributions in Belgium simply because of their office held with Dexia without benefiting from increased social insurance protection.

For instance, this is the case for directors not resident in Belgium who already benefit from social insurance in their country of residence, and who are required to contribute in Belgium to an unrecovered annuity. Likewise, a director resident in Belgium who is subject to the salaried employee system or to the system applicable for public servants as a principal activity and who is required to contribute as an independent worker additionally because of their office held in Belgium without benefiting from increased social insurance compared with what they already qualify for because of their principal activity.

In order to offset the unrecovered social security cost paid by directors who are in this position (subject to an annual review in order to reflect changes in status), the ordinary shareholders' meeting held on 10 May 2006 decided that Dexia will pay the unrecovered social security contributions and the other amounts owed for serving as a director of Dexia and, therefore, raised the maximum limit for directors' compensation from EUR 700,000 to EUR 1,300,000.

To qualify for this payment, directors must meet the conditions required. In 2018, Dexia paid in total EUR 14,512.51 of special security contributions for directors who are in this situation.

Remuneration of members of the Management Board of Dexia for 2018

Composition of the remuneration

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

Consequently, no variable remuneration was or will be granted for the year 2018 to the Management Board.

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 with 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(s) and members of the Board of Directors.

Remuneration for the year 2018

The basic remuneration consists solely of a fixed part.

SUMMARY TABLE OF THE BASIC REMUNERATION PAID IN 2018 TO THE CHAIRMAN OF THE MANAGEMENT BOARD

(in EUR)	Gross basic remuneration
Wouter Devriendt	600,000

SUMMARY TABLE OF THE BASIC REMUNERATION PAID IN 2018 TO OTHER MEMBERS OF THE MANAGEMENT BOARD

(in EUR)	Gross basic remuneration
Other members of the Management Board	2,373,316

Supplementary pension schemes for members of the Management Board

Members of the Management Board who do not perform their function within the framework of a French contract (Belgium and the United States) benefit from a supplementary pension put in place by Dexia.

Characteristics of the applicable supplementary pension schemes

The supplementary pension schemes of the members of the Management Board are defined contribution schemes not generating social liabilities for the company. They give a right, on retirement, to the capital constituted by a capitalisation of annual contributions. These represent a fixed percentage of an annual fixed and limited remuneration.

Amounts paid under these supplementary pension schemes

Annual premiums of EUR 274,042 were paid in 2018 in favour of members of the Management Board including EUR 126,290 for Chairmen of the Management Board and EUR 147,752 for other members of the Management Board.

Supplementary death cover, permanent invalidity and medical costs

Collective annual premiums of EUR 151,661 were paid in 2018 in favour of members of the Management Board for supplementary death cover, permanent invalidity and medical costs, the breakdown of which appears in the table below.

SUMMARY TABLE OF DEATH COVER, PERMANENT INVALIDITY AND MEDICAL COSTS PAID IN 2018 TO THE CHAIRMAN OF THE MANAGEMENT BOARD

(in EUR)	Death cover, orphans	Invalidity	Medical costs
Wouter Devriendt	42,851	16,455	535

SUMMARY TABLE OF DEATH COVER, PERMANENT INVALIDITY AND MEDICAL COSTS PAID IN 2018 TO OTHER MEMBERS OF THE MANAGEMENT BOARD

(in EUR)	Death cover, orphans	Invalidity	Medical costs
Other members of the Management Board	34,130	19,207	38,483

Other benefits of members of the Management Board

SUMMARY TABLE OF BENEFITS GRANTED IN 2018 TO THE CHAIRMAN OF THE MANAGEMENT BOARD

(in EUR)	Representation costs	Telephone benefit	Car benefit
Wouter Devriendt	5,880	180	4,329

SUMMARY TABLE OF BENEFITS GRANTED IN 2018 TO OTHER MEMBERS OF THE MANAGEMENT BOARD

(in EUR)	Representation costs	Telephone benefit	Car benefit
Other members of the Management Board	13,092	210	30,883

Option plan

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

Severance conditions

Provisions relating to severance payments under the Dexia remuneration policy

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

Provisions relating to severance payments contained in the contracts of employment of members of the Management Board

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

Departure during the year 2018

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

Internal control and risk management system

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.

(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 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 employee and their superiors, in accordance with responsibilities that have been expressly delegated to them, procedures applicable to the activity they perform, and with instructions provided to them;
• **The second level of control** is performed by specialised functions, independent from the activities controlled or members of staff who are independent from the activities controlled;
• **The third level of control** is performed by the Dexia Group Audit function, the task of which is, through periodic checks, to ensure that there is efficient and effective performance of both of the levels of control defined above, within the holding company and all of its subsidiaries and branches.

The main internal control participants

The participants concerned by internal control are as follows:
• **Staff members and their direct superiors** are responsible for defining and implementing first level controls, as an integral part of their activity, in accordance with regulations. The heads of each activity line are responsible for defining and updating a body of procedures adapted to the complexity and risks associated with their activity;
• **Permanent control** has the role of challenging key first level controls, implementing second level controls and collecting the results of key second level controls implemented by other specialised functions (for instance: Accounting Control, Validation, Credit Model Control);
• **Compliance** ensures that all the regulations in the fields entrusted to it by the compliance charter adopted by the Board of Directors are applied on a permanent basis and do not, through their absence or non-application, result in the company running risks, either of administrative, disciplinary, financial or even reputational penalty;
• **Internal Audit** considers all the objectives of the organisation, analyses the risks liable to compromise the achievement of those objectives and periodically assesses the robustness of the controls put in place to manage such risks.

The responsibilities of the Board of Directors and the Management Board

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) 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.

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 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;

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

Operational principles

Internal control activities are guided by the following principles:

• Risk-based approach: internal control within Dexia adopts a risk-based approach. The internal control functions determine their control programmes and their activities on the basis of a prior risk assessment.

• Coordination: the control functions work in a coordinated manner in order to avoid redundancies of tasks and the duplication of action plans;

• Common methodological references and tools: the control functions share common references and nomenclatures (for instance a common risk reference) and common methodological tools, in order to facilitate the production of reports to the bank's governance bodies.

The internal control participants

Internal Audit

Role

Internal Audit is an independent and objective activity giving the Board of Directors and the Management Board of the Dexia Group assurances concerning the quality and effectiveness of its internal control system, risk management and governance systems and procedures, contributing towards the protection of the Group's interests and reputation.

It considers all the objectives of the organisation, analyses the risks associated with those objectives and periodically assesses the robustness of the controls in place to manage those risks. Internal audit then provides management with an assessment of the residual risks so that management can validate the appropriateness for the global risk profile desired for the Dexia Group, and proposes actions to increase the effectiveness of controls.

Moreover, Internal Audit assists the Boards of Directors of the Group and its entities in their supervisory role through its participation on the Audit Committees.

In line with international standards, a Dexia Group Audit Charter sets out the fundamental principles governing the internal audit function and describing its objectives, role and responsibilities, as well as how it operates. This charter was updated in June 2014 to take account of the Group's new configuration.

So that each Dexia Group staff member can appreciate the importance of the internal audit function's role within the Dexia Group's internal control and management support systems, the audit charter has been published on the Dexia website *(www.dexia.com).*

Main guidelines

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

The independence and effectiveness of the audit function are guaranteed by applying the following principles:

• Each Internal Audit department reports directly to the highest level of authority within the entity.

• The absence of involvement in the organisation and operational management of Group entities. The Management Boards of Group entities may exceptionally call on internal audit for opinions, advice or assistance. The rules relating to those duties are defined in title 9 of the audit charter.

• Unconditional and immediate access to information: within the framework of its tasks, the internal audit function has access to all the information, documents, premises, systems and persons within the entity for which it is responsible, including all management reports and the minutes of and information packages prepared for any advisory and decision-taking bodies. The Dexia Group Internal Audit department has access to all the information in all Group entities. Any breach of these principles is liable to be reported to the Management Board and, if relevant, the Audit Committee;

• The provision of the means necessary to perform its task: Internal Audit receives from the Group's Management Board the means necessary to perform its task so as to respond constantly to changes in the Group's structures and environment. At an individual level, each auditor must show the greatest professionalism and have ongoing training to ensure their mastery of the rapid changes to audit, banking, financial and IT techniques and those for combating fraud. Training needs are assessed in periodic and annual assessments. Statutory Auditors are required to comply with the Dexia Group's rules of professional ethics, as well as those specific to their profession. This means observance of the following fundamental principles:

• Integrity: the integrity of internal auditors is the basis for confidence in and the credibility of their judgement;

• Objectivity: auditors must show the highest degree of professional objectivity in collecting, assessing and communicating information relating to the activity or process examined. Internal auditors fairly assess all the relevant elements and are not influenced in their judgement by their own interests or those of others;

• Confidentiality: internal auditors have a duty of professional secrecy; they respect the value and ownership of the information they receive and only disclose this information with the required authorisations, unless a legal or professional obligation forces them to do so;

• Competence: internal auditors use and apply the knowledge, know-how and experience required for the performance of their tasks.

Scope for intervention

All the Dexia Group's activities, processes, systems and entities are within the scope of action for internal audit, without any reservations or exceptions. The scope includes all processes, whether operational, support, management, corporate governance and risk management and control processes. Outsourced essential activities also fall within the audit scope, given that operational services are responsible for organising the conditions for the possibility of audits by including audit clauses in service agreements.

Other than exceptions associated in particular with requests from the supervisory authorities, the audit scope does not however cover the activities of companies in which the Dexia Group only holds a minority interest. However, Dexia's representative on the Board of Directors is responsible for learning about the state of the internal control mechanism and, if necessary, alerting the Management Board and the audit department of the entity which holds that interest.

Organisation of the function

Principles

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

The activity line is headed by the General Auditor of Dexia, who reports to the 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 and their subsidiaries/branches, as well as all the tasks performed by the local bank supervisory authorities. The General Auditor periodically reports to the Management Board and to the Audit Committee, on the tasks, powers and responsibilities of internal audit, the degree of implementation of the audit plan and the assessment of the internal audit environment.

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

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

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

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

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

Organisation of an Audit function

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

Management of the Audit activity line

In order to manage the activity line, the Audit department of Dexia 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 is responsible for:

• The Audit strategy and its proper implementation in all Dexia Group audit departments;

• The definition and application of a common methodology for analysing risks, performing tasks and monitoring recommendations made;

• The optimum allocation of competences within the function and determining the level of training required of auditors throughout the Group;
• The coordination and assessment of training programmes;
• The attribution and monitoring of the operating budget of each local audit department.

Relations with the supervisory authorities and statutory auditors

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

General overview of activity over the year 2018

In 2018, the tasks of Internal Audit related to all the Group's major activity lines: Assets ("Management of Project Finance Portfolio", Funding and Markets ("Collateral Management"), Risk ("operational Risk Management"), Finance ("Controlling activities"), General Secretariat ("MiFID II"), Operations and IT Systems ("Leasing Operations").
Head office audit services were provided to local audit teams at Dexia New York, Dexia Crediop and Dexia Kommunalbank Deutschland, particularly in performing tasks relating to regulatory developments (IFRS 9).

The Inspection Unit

Role

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

Organisation and governance

Inspection performs its tasks within the Internal Audit department and is responsible for the performance of its tasks in relation to the Group General Auditor.
Inspection performs these tasks for Dexia and Dexia Crédit Local, as well as for all the branches, subsidiaries and sub-subsidiaries depending on them, which do not have their own inspection function. The function is performed full-time by an inspector reporting to the head of Internal Audit and Inspection who in turn reports to the Group General Auditor. If necessary, the function is performed working closely with the head of Internal Audit for the entity concerned.
An Inspection Charter sets out the fundamental principles governing the function, describing the objectives, roles, powers, duties and responsibilities, terms of operation and the basic rules governing it, including rules of professional ethics.

General overview of activity over the year 2018

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

The Compliance function

The Compliance function is an independent function within the Dexia Group. It carries out its activities without any influence, interference or restrictions likely to affect its independence, its integrity, its impartiality and its objectivity.
The compliance function is an integral part of the internal audit mechanism of credit institutions and investment companies. The Compliance department at Dexia Crédit Local ensures the coherence and effectiveness of managing the risks of non-compliance within Dexia. The Compliance fields are as follows:
• The fight against money laundering and the financing of terrorism (including the prevention of tax fraud);
• The fight against corruption (prevention of corruption and prohibited behaviours);
• The control of information relating to the tax situation of clients and counterparties to respond to existing regulations;
• Market abuse and personal transactions;
• Integrity vis-à-vis financial markets and clients;
• Data protection;
• Confidentiality and professional secrecy;
• Prevention of conflicts of interest;
• External mandates;
• Independence of the statutory auditors;
• Observing the principles stated by remuneration policy and legal requirements with regard to the expertise and professional honour of members of the Management Board, directors, heads of independent audit functions and executives;
• Internal warning system;
• Other fields indicated by the Management Board and the Board of Directors, considering the level of associated risk. In this regard the Compliance department of the Group and of Dexia Crédit Local guides the permanent control mechanism of the establishments concerned, including their subsidiaries and branches.
Within the framework of the fields of competence listed above, the Compliance function performs the following tasks:
• It analyses legal and regulatory developments in order to anticipate and assess possible consequences on the activities of Dexia and Dexia Crédit Local. For the areas covered by Compliance, It provides an interpretation of national and international legislation and regulations and ensures that these provisions are included in the policies, procedures and other documents of the institution.
• It identifies, analyses and measures non-compliance and reputation risks which might arise from activities and financial products and the impacts in terms of evolution of the Group's scope;
• It provides assistance to business lines in the development and implementation of compliance procedures and other documents. For example, it helps with the drafting of compliance manuals, internal codes of conduct and practical guides. It assists and advises in order to ensure the implementation of procedures complying with the regulations and those external or internal norms;
• It develops and provides compliance training programmes, adapted to the needs of business lines, promoting an appropriate compliance culture and awareness and understanding of standards, procedures and lines of conduct to be applied;
• To the extent that it is required by local regulations, it communicates with the financial supervisory authorities or any other competent authority about any suspect incident or transaction;

• It regularly presents its activities and reports on the status of any major shortcomings to the Management Board, the Board of Director, the Audit Committee and the Risk Committee.
It should be noted that the Permanent Control function was split from the Compliance department in 2018.

Organisational structure

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

Charter

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

Permanent Control

The Permanent Control mechanism outside Compliance relies firstly on the realisation of controls conceived, realised and formalised under the primary and direct responsibility of the operating units concerned and their superiors (first level permanent control). In other units, it relies on agents exclusively dedicated to control tasks, independently of operating units (second level permanent control).
The Permanent Control department was aligned to operational risk management as from April 2018, in order more closely to link the review of controls and risk assessment of the Group's main processes. This has resulted in the creation of a Permanent Control, Operational Risk and IT Systems Security department within the Risk Department. Other specialised units also carry out second-level controls in the areas of accounting, information systems security, credit rating, validation of internal models and market risk. In 2018, the Accounting Control function of the Finance department, in particular, continued to implement its control plan, which includes recurring closing work, process reviews and the control of exceptional operations.
Permanent Control relies on a control plan which consists of a selection of first level and second level controls. The plan covers the processes of head office, subsidiaries and branches as well as essential outsourced processes. First level controls to be integrated in this plan are offered by decentralised correspondents within operational units, departments, subsidiaries, branches and service providers. They are reviewed by the Permanent Control department which may, as the case may be, play a prescriptive role. Permanent Control also designs second level controls which it is responsible for realising. The review of the Permanent Control plan is determined on the basis of the mapping of processes, the analysis of corresponding operational risks, operational incidents gathered and the recommendations of internal audit, the auditors and supervisors.
At a consolidated level for all subsidiaries and providers, the Permanent Control department sees to the quarterly performance of the controls of the plan, ensuring a second reading of the proper implementation of controls and making a critical analysis of the results having regard to the risks identified. Permanent Control may ask for any substantiation of the differences observed and ensures the implementation of the necessary action plans, enabling malfunctions to the 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.

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

The financial statements

The Finance activity line has the following five departments, reporting to the Chief Financial Officer: Financial Strategy, Product Control, IT Support, Financial Control and Finance Business Management.
The Financial Control department brings together the Accounting department and the transversal functions of Consolidation, Management Control, Tax, Norms and Consolidated Regulatory Reporting.
The Accounting department sees to the production of basic accounting data and the financial statements of Dexia, Dexia Crédit Local, and those of the subsidiaries which do not have their own Accounting departments, if that task is not performed by a fiduciary.
The Accounting department also has a role of analysing and controlling the accounting data of branches, as part of the process of preparing the statutory accounts. In collaboration with the Consolidation and Management Control department, in particular it checks that the information provided is consistent and complies with Group rules.
More generally, the Accounting department has various means of information to perform its task of monitoring the accounting function in the broad sense. It is associated with

committees which may be of interest in its task or the recipient of reports. Through regular contacts with its local correspondents, it ensures the proper dissemination of Group principles and proper interpretation of instructions given. It participates in the development of IT systems, so as to ensure that its specific requirements are taken into account.
Implementation of the outsourcing agreement signed at the beginning of October 2017 with Cognizant was reflected by the transfer of IT services in November 2017 and credit and market back offices in May 2018. This partnership with Cognizant marks an important stage in securing Dexia's operational model. The outsourced services are closely monitored by the Watchtower, put in place within Dexia, in particular via performance and risk indicators (Risk Appetite Framework). Dexia also chose to entrust Cognizant with the task of renewing and managing its IT infrastructure within the framework of a separate agreement. Its implementation, which is ongoing, will extend through 2019 and is also being closely monitored.

Dexia statutory financial statements

Dexia head office accounting and also that of the permanent establishment in Paris is kept in Brussels.
Additional checks are made by teams in the Accounting department when drawing up the quarterly, half-year or annual financial statements. Balances and the principal changes must be justified.

Dexia consolidated financial statements

In order to prepare their contribution to the Dexia 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 Group (IFRS accounting standards as adopted in the European Union). These principles are compiled in a consolidation manual sent to each Group entity. They are completed, on each accounting date, by operational instruction notes provided to the entities by the head office Consolidation service. These instruction notes present the improvements to be made to processes with a view to observations made over previous periods and detail the developments to be taken into account (systems, new data to be provided and so on) over the period.
The financial statements sent to the Group by the various entities are then consolidated and are subject to certain adjustments. The principal account adjustments by the Consolidation service relate to the elimination of reciprocal accounts and intragroup transactions (acquisitions/asset disposals, dividends and so on). They also deal with the treatment of companies held by different Group entities.
When the consolidated financial statements have been finalised, they are submitted for review to the Chief Financial Officer who has them approved by the Management Board. They are then presented to the Audit Committee and signed off by the Board of Directors of Dexia.
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 various departments, such as Financial Strategy, the Risk department, the General Secretariat 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.

Periodic prudential reporting

Standardised Common Reporting or COREP and the calculation of solvency margins on a consolidated basis are sent to the European Central Bank via the national supervisory authorities four times a year.
Dexia is subject quarterly to the consolidated Financial Reporting or FINREP of financial companies.

Management information

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

Risk inventory

Banking activity generates four major types of risks: credit risk, market risk, transformation risk and operational risk (including legal risk).
The monitoring of all of these risks is detailed in the chapter entitled "Risk Management" of this 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.
In accordance with Article 14 of the articles of association of Dexia, the auditing of the company's financial position and annual financial statements is entrusted to one or more auditors who are appointed by the shareholders' meeting for a maximum of three years on the recommendation of the Board of Directors and after validation by the works council.
The statutory auditing of Dexia's financial statements has been entrusted to Deloitte Reviseurs d'Entreprises SCRL/CVBA, the mandate of which was renewed by the ordinary shareholders' meeting in May 2017 and the company Mazars Reviseurs d'Entreprises SCRL/CBVA, which was also appointed by this shareholders' meeting for a term of three years closing at the end of the ordinary shareholders' meeting in May 2020. The company Deloitte is represented by Mr Yves Dehogne, chartered auditor and the company Mazars by Mr Xavier Doyen, chartered auditor.

Auditors' remuneration

This table gives a summary of the remuneration paid to the statutory auditors for their services in 2018 for Dexia and the entire Dexia Group.

DELOITTE (in EUR thousand)	**Services provided for Dexia**	**Services provided for the Dexia Group (consolidated amounts)**
a) Audit of the financial statements	181	2,051
b) Other tasks (non-certification)	65	123
TOTAL	**246**	**2,174**

MAZARS (in EUR thousand)	**Services provided for Dexia**	**Services provided for the Dexia Group (consolidated amounts**
a) Audit of the financial statements	179	2,029
b) Other tasks (non-certification)	66	175
TOTAL	**245**	**2,204**

Protocol for the Dexia Group's prudential structure

In application of Regulation EU 1024/2013 of the Council dated 15 October 2013 entrusting the European Central Bank (ECB) with specific tasks concerning policies for the prudential supervision of credit institutions, the European Central Bank decided that the Dexia Group was an important group within the meaning of article 6 §4 of the Regulation, and that all of its subsidiaries subject to prudential supervision on a consolidated basis in accordance with Regulation 575/2013 were important entities subject to prudential supervision by the ECB.
With the assistance of national supervisory authorities, the ECB supervises institutions classified as important. Daily supervision is by joint supervisory teams (JST), which include the staff of the various national supervisory authorities and the ECB.

General information

Overview of Dexia's direct holdings as at 31 December 2018

Dexia's direct holdings as at 31 December 2018 were as follows:
- 100% in Dexia Crédit Local (France);
- 100% in Dexia Nederland BV (Netherlands);
- 100% in Dexiarail S.A. (France).

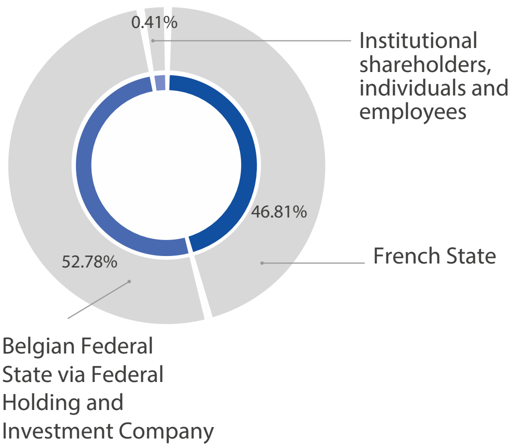
Dexia has a permanent establishment in France.

Agenda for shareholders' meetings

The agendas for the ordinary shareholders' meeting and the extraordinary shareholders' meeting to be held on Wednesday 15 May 2019 in Brussels are available on Dexia's website: *www.dexia.com*.

Notifications under the legislation on transparency

Under the terms of the Law of 2 May 2007 (the "Law"), relating to the disclosure of major holdings in issuers whose shares are admitted for trading on a regulated market, and the Royal Decree dealing with its execution dated 14 February 2008, which came into force on 1 September 2008, and on the basis of Article 5 of the articles of association of Dexia, shareholders are required to notify their holdings to the Financial Services and Markets Authority (FSMA) and to Dexia, whenever these reach a threshold of 1%, 3%, then 5% or a multiple of 5%.
To calculate percentages of holdings, the numerator consists of the number of voting rights attached to shares conferring voting rights or not associated with shares, reduced or increased by the number of voting rights which may be acquired on the exercising of similar financial instruments held by the person making the declaration. The denominator consists of the total number of existing voting rights in Dexia as published on the website.
Dexia received no notification during the year 2018.



Legislation on tender offers

Publication in accordance with Article 34 of the Royal Decree of 14 November 2007 relating to the obligations of issuers of financial instruments admitted for trading on a regulated market

Capital structure as at 31 December 2018
The shareholder structure is detailed on page 42, and the information relating to the share capital is provided on page 29 of the annual report.

Legal or statutory restriction on the transfer of shares
Not applicable.

Holders of any securities bearing special control rights
No special rights are attached to securities representing the company's share capital.

Control mechanisms provided in an employee share ownership plan when control rights are not exercised directly
Not applicable.

Legal or statutory restriction on the exercising of voting rights
The voting rights on own shares held by Dexia or its subsidiaries are not exercised during the shareholders' meetings of Dexia.

Agreements between shareholders known by the issuer and which may involve restrictions for the transfer of securities and/or the exercising of voting rights
Not applicable.

Rules applicable for the appointment and replacement of members of the Board of Directors as well as the amendment of the articles of association of the issuer
The rules relating to the appointment and replacement of members of the Board of Directors are detailed on page 47 of the Declaration of corporate governance, as well as in the Corporate governance charter published on the company's website.
The company's articles of association may be amended in accordance with the provisions of the Companies Code.

Powers of the administrative body, particularly concerning the power to issue or repurchase shares
The Board of Directors was authorised by the shareholders' meeting, in accordance with statutory provisions and Articles 607 and 620 of the Companies Code, to issue and repurchase shares on the basis of authorisations granted by the shareholders' meeting.
The authorisation to increase the capital granted by the shareholders' meeting on 14 May 2014 is valid for a five-year period ending in 2019. The renewal of the authorisation to increase the authorised capital will be proposed to the extraordinary shareholders' meeting to be held on 15 May 2019. The authorisation to acquire and dispose of own shares was renewed by the general meeting on 16 May 2018, for a period of five years, and will expire in 2023.

Major agreements to which Dexia is a party and which take effect, are amended or terminate in the event of a change of control of Dexia as the result of a public tender offer
Dexia is not party to any major agreement liable to enter into force, be amended or terminated as a result of a change of control over the company within the context of a public tender offer.

Agreements between Dexia and members of its Board of Directors or its staff which provide remuneration if members of the Board resign or must leave their positions without valid reason or if the employment of members of staff ends by virtue of a public tender offer
Not applicable.

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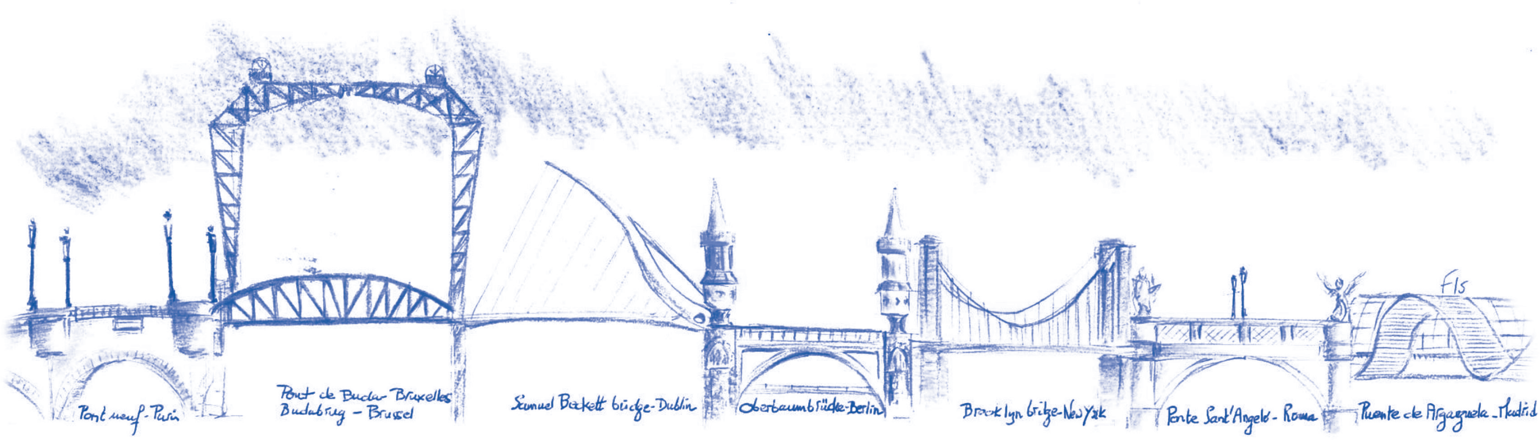

Consolidated Financial Statements as at 31 December 2018

Consolidated balance sheet

ASSETS (in EUR million)	Note	31/12/2017 IAS 39	01/01/2018 IFRS 9	31/12/2018 IFRS 9
Cash and central banks	2.2	10,721	10,721	9,269
Financial assets at fair value through profit or loss	2.3 & 4.1	13,188	17,013	13,421
Hedging derivatives	4.1	4,985	4,977	1,263
Financial assets available for sale	2.4	10,830		
Financial assets at fair value through other comprehensive income	2.4		11,757	4,916
Financial assets at amortised cost - Debt securities	2.5		50,272	45,502
Interbank loans and advances	2.6	6 144		
Financial assets at amortised cost - Interbank loans and advances	2.6		30,690	23,665
Customer loans and advances	2.7	99,264		
Financial assets at amortised cost - Customer loans and advances	2.7		54,320	35,158
Fair value revaluation of portfolio hedges		1,314	1,175	748
Financial assets held to maturity	2.5	1,750		
Current tax assets		19	19	39
Deferred tax assets	4.2	29	29	20
Accruals and other assets	2.8	30,550	562	389
Non current assets held for sale	4.6	2,105	2,102	24,375
Tangible fixed assets	2.9	4	4	2
Intangible assets	2.10	35	35	37
TOTAL ASSETS		**180,938**	**183,676**	**158,804**

The notes on pages 77 to 165 are integral part of these consolidated financial statements

LIABILITIES (in EUR million)	**Note**	**31/12/2017 IAS 39**	**01/01/2018 IFRS 9**	**31/12/2018 IFRS 9**
Financial liabilities at fair value through profit or loss	3.1 & 4.1	14,193	14,912	11,872
Hedging derivatives	4.1	27,858	27,139	21,151
Interbank borrowings and deposits	3.2	31,016	30,807	20,091
Customer borrowings and deposits	3.3	6,404	10,137	4,873
Debt securities	3.4	89,654	89,654	67,960
Fair value revaluation of portfolio hedges		41	41	13
Current tax liabilities		1	1	3
Deferred tax liabilities	4.2	0	7	40
Accruals and other liabilities	3.5	3,941	418	411
Liabilities included in disposal groups held for sale	4.6	1,894	1,894	24,055
Provisions	3.6	374	385	368
Subordinated debt	3.7	160	160	126
Total liabilities		**175,536**	**175,555**	**150,963**
Equity	3.8	**5,402**	**8,121**	**7,841**
Equity, Group share		4,992	7,689	7,504
Capital stock and related reserves		2,489	2,489	2,489
Consolidated reserves		7,228	6,366	6,390
Gains and losses directly recognised in equity		(4,263)	(1,166)	(902)
Net result of the period		(462)		(473)
Minority interests		410	432	337
TOTAL LIABILITIES AND EQUITY		**180,938**	**183,676**	**158,804**

The notes on pages 77 to 165 are integral part of these consolidated financial statements

Consolidated statement of income

(in EUR million)	Note	31/12/2017[1] IAS 39 - restated	31/12/2018 IFRS 9
Interest income	5.1	8,203	7,827
Interest expense	5.1	(8,059)	(7,778)
Commission income	5.2	14	11
Commission expense	5.2	(16)	(15)
Net gains (losses) on financial instruments at fair value through profit or loss	5.3	(108)	(144)
Net gains (losses) on financial assets available for sale	5.4	(187)	
Net gains (losses) on financial instruments measured at fair value through other comprehensive income	5.4		(91)
Net gains (losses) arising on derecognition of financial assets measured at amortised cost	5.5		(16)
Other income	5.6	77	28
Other expenses	5.7	(47)	(54)
NET BANKING INCOME		**(123)**	**(232)**
Operating expenses	5.8	(378)	(369)
Depreciation, amortisation and impairment of tangible fixed assets and intangible assets	5.9	(14)	(17)
GROSS OPERATING INCOME		**(515)**	**(618)**
Cost of credit risk	5.10	33	128
OPERATING INCOME		**(482)**	**(490)**
Net gains (losses) on other assets	5.11	2	8
NET RESULT BEFORE TAX		**(480)**	**(482)**
Income tax	5.12	(13)	(40)
Result from discontinued operations, net of tax	4.6	32	23
NET INCOME		**(461)**	**(499)**
Minority interests		1	(26)
NET INCOME, GROUP SHARE		**(462)**	**(473)**
Earnings per share, Group share (in EUR) [2]	5.13		
Basic		(15.63)	(1.13)
- from continuing operations		*(16.72)*	*(1.18)*
- from discontinued operations		*1.09*	*0.05*
Diluted		(15.63)	(1.13)
- from continuing operations		*(16.72)*	*(1.18)*
- from discontinued operations		*1.09*	*0.05*

(1) Following the classification of Dexia Kommunalbank Deutschland (DKD) as discontinued operations (see also note 4.6), as required by the IFRS 5 standard, the consolidated income statement 2017 was restated to present DKD's results on the separate line Result from discontinued operations, net of tax.
(2) The average number of shares increased from 29,574,125 as at 31 December 2017 to 420,134,302 as at 31 December 2018 following the conversion of the preferred shares issued as at 31 December 2012 and subscribed by the Belgian and French States into ordinary shares issued as at 7 December 2017. We also refer to the note 3.9 Information on equity in Dexia's Annual Report 2017.

The notes on pages 77 to 165 are integral part of these consolidated financial statements.

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Consolidated statement of comprehensive income

(in EUR million)	31/12/2017 IAS 39			31/12/2018 IFRS 9		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
NET INCOME			**(461)**			**(499)**
Elements reclassified or likely to be subsequently reclassified in net income						
Cumulative translation adjustments	(130)		(130)	26		26
Revaluation of financial assets available for sale or reclassified into loans and receivables or into held-to-maturity financial assets (1)	1,036	(3)	1,033			
Changes in fair value of debt instruments at fair value through other comprehensive income				197	(1)	196
Revaluation of hedging derivatives	415		415	345	(1)	344
Other comprehensive income from disposal groups held for sale (2)	48	(1)	47	(296)	1	(295)
Elements that will never be reclassified or likely to be subsequently reclassified in net income						
Actuarial gains and losses on defined benefit plans	3	(1)	2			
Own credit risk revaluation directly recognised in equity for the financial liabilities designated at fair value through profit or loss (FVTPL)	(75)	27	(48)	(4)	1	(3)
Transfer within consolidated reserves of own credit risk amounts related to financial liabilities designated at fair value through profit or loss, upon their derecognition (3)	(17)		(17)	(24)		(24)
Reevaluation directly recognised in equity of equity instruments at fair value through other comprehensive income				1		1
TOTAL UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY	**1,280**	**22**	**1,302**	**245**	**0**	**245**
NET RESULT AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY			**841**			**(254)**
Of which, Group share			839			(209)
Of which, Minority interests			2			(45)

(1) 31/12/2017 :EUR 771 million are related to the changes in fair value directly recognised in own funds mainly as a consequence of the tightening of the spreads on Italian, Portuguese and Polish sovereigns.
(2) As at 31 December 2017, Dexia Israël was presented as Non current assets held for sale, the variation of its gains and losses directly recognised in equity (EUR 29 million, group share and EUR 18 million, minority interests) was presented separately. As at 31 December 2018, Dexia Israël 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 - 248 million.
(3) Termination of Guaranteed Investment Contracts (GICs).

The notes of pages 77 to 165 are integral part of these consolidated financial statements

Consolidated statement of changes in equity

	Capital stock and related reserves				Consolidated reserves	Gains and losses directly		
(in EUR million)	Capital stock	Related reserves	Treasury shares	Total		Change in fair value of financial assets available for sale or reclassified as loans and advances or as held-to-maturity financial assets, net of taxes	Change in fair value of debt instruments measured at fair value through other comprehensive income, net of taxes	Change in fair value of equity instruments measured at fair value through other comprehen-sive income, net of taxes
AS AT 31 DECEMBER 2016	**500**	**1,990**	**(4)**	**2,486**	**7,018**	**(4,525)**		
First application of IFRS 9 standard regarding own credit risk of financial liabilities at fair value [1]					(146)			
AS AT 1 JANUARY 2017	**500**	**1,990**	**(4)**	**2,486**	**6,872**	**(4,525)**		
Movements during the period								
Changes in capital								
Sale of treasury shares			3	3	(3)			
Dividends								
Appropriation of net income 2016					353			
Subtotal of shareholders related movements			**3**	**3**	**350**			
Translation adjustments								
Own credit risk reclassified from accumulated other comprehensive income to equity upon reimbursement of financial liabilities at fair value through profit or loss					17			
Changes in fair value of financial assets available for sale or reclassified as loans and advances or as held-to-maturity financial assets, through equity						770		
Gains and losses of the period of cash flow hedge derivatives, through equity								
Changes in fair value of financial assets available for sale or reclassified as loans and advances or as held-to-maturity financial assets, through profit or loss						261		
Gains and losses of cash flow hedge derivatives reclassified in profit or loss								
Changes in fair value of financial liabilities designated at fair value through profit or loss arising from changes in own credit risk during the period								
Changes in actuarial gains and losses on defined benefit plans								
Transfers [2]						(1)		
Subtotal of changes in gains and losses directly recognised in equity					**17**	**1,030**		
Net income for the period								
Effect of acquisition and sales on minority interests [3]					(11)			
AS AT 31 DECEMBER 2017	**500**	**1,990**	**(1)**	**2,489**	**7,228**	**(3,495)**		
Appropriation of net income 2017					(462)			
First application of IFRS 9 standard					(400)	3,495	(408)	(1)
AS AT 1 JANUARY 2018	**500**	**1,990**	**(1)**	**2,489**	**6,366**		**(408)**	**(1)**
Movements during the period								
Translation adjustments								
Own credit risk reclassified from accumulated other comprehensive income to equity upon reimbursement of financial liabilities at FVTPL					24			
Changes in fair value of financial assets measured at fair value through other comprehensive income, through equity							264	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 derivaitves, through equity								
Gains and losses on cash flow hedge derivatives reclassified in profit or loss.								
Changes in fair value of financial liabilities designated at fair value through profit or loss attributable to own credit risk (OCR)								
Changes in actuarial gains and losses on defined benefit plans								
Transfers [4]							9	
Subtotal of changes in gains and losses directly recognised in equity					**24**		**196**	**1**
Net income for the period								
Impact disposal Dexia Israel								
AS AT 31 DECEMBER 2018	**500**	**1,990**	**(1)**	**2,489**	**6,390**		**(212)**	**0**

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

The notes on pages 77 to 165 are integral part of these consolidated financial statements

recognised in equity						Net income, Group share	EQUITY, GROUP SHARE	Minority interests			EQUITY
Change in fair value of cash flow hedges, net of taxes	Change in unrealised or deferred gains and losses related to non current assets held for sale	Actuarial gains and losses on defined benefit plans	Change in fair value of financial liabilities designated at fair value through profit or loss attributable to own credit risk	Translation adjust-ments	Total			Capital and reserves	Gains and losses directly recog-nised in equity	Total	
(1,339)	0	(3)	0	157	(5,710)	353	4,147	445	(18)	427	4,574
			146		146						0
(1,339)	0	(3)	146	157	(5,564)	353	4,147	445	(18)	427	4,574
								4		4	4
							0				0
								(33)		(33)	(33)
						(353)	0				0
						(353)	0	(29)		(29)	(29)
				(81)	(81)		(81)		(3)	(3)	(84)
			(17)		(17)		0				0
					770		770		1	1	771
341					341		341		(3)	(3)	338
					261		261		1	1	262
76					76		76				76
			(48)		(48)		(48)				(48)
		2			2		2		1	1	3
	29			(28)	0						0
417	29	2	(65)	(109)	1,304		1,321		(3)	(3)	1,318
						(462)	(462)	1		1	(461)
				(3)	(3)		(14)	11	3	14	0
(922)	29	(1)	81	45	(4,263)	(462)	4,992	428	(18)	410	5,402
						462	0				0
			(6)	17	3,097		2,697	(16)	38	22	2,719
(922)	29	(1)	75	62	(1,166)	0	7,689	412	20	432	8,121
				26	26		26			0	26
			(24)		(24)		0			0	0
					265		265		1	1	266
					(77)		(77)				(77)
135					135		135				135
(30)					(30)		(30)				(30)
			(3)		(3)		(3)				(3)
		1			1		1				1
239	(248)				0		0				0
344	(248)	1	(27)	26	293		317		1	1	318
						(473)	(473)	(26)		(26)	(499)
	(29)				(29)		(29)	(51)	(19)	(70)	(99)
(578)	(248)	0	48	88	(902)	(473)	7,504	335	2	337	7,841

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

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

Consolidated cash flow statement

(in EUR million)	31/12/2017	31/12/2018
CASH FLOW FROM OPERATING ACTIVITIES		
Net income after income taxes	(461)	(499)
Adjustment for:		
- Depreciation , amortization and other impairment	15	16
- Impairment losses (reversal impairment losses) on bonds, equities, loans and other assets	(51)	
- Impairment losses (reversal impairment losses) on bonds, loans and other assets		(122)
- Net (gains) or losses on investments	(6)	(25)
- Net increases (net decreases) in provisions	(123)	(5)
- Unrealised (gains) or losses on financial instruments	131	64
- Deferred taxes	1	42
Changes in operating assets and liabilities	7,019	(118)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**6,525**	**(647)**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(16)	(19)
Sale of fixed assets	4	0
Sales of unconsolidated equity shares	16	33
Sales of subsidiaries and of business units [1]		(632)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**4**	**(618)**
CASH FLOW FROM FINANCING ACTIVITIES		
Issuance of new shares (minority interests) [1]	4	0
Dividends paid (minority interests) [1]	(33)	0
Reimbursement of subordinated debts [2]	(282)	(34)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	**(311)**	**(34)**
NET CASH PROVIDED	**6,218**	**(1,299)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**5,779**	**11,877**
Cash flow from operating activities	6,525	(647)
Cash flow from investing activities	4	(618)
Cash flow from financing activities	(311)	(34)
Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents	(120)	48
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**11,877**	**10,626**
ADDITIONAL INFORMATION		
Income tax paid	(22)	(15)
Dividends received	2	5
Interest received	10,290	9,397
Interest paid	(10,236)	(9,261)

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

The notes on pages 77 to 165 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

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

1.1.	Accounting policies and valuation methods	77
1.2.	Ownership interest in subsidiaries and other entities	97
1.3.	Significant items included in the statement of income	99
1.4.	Other significant event of the year	100
1.5.	Post-balance-sheet events	100
1.6.	Presentation of the effect of the standard IFRS 9 "Financial Instruments" on the balance as at 1st January 2018	100

1.1. Accounting policies and valuation methods

GENERAL INFORMATION

The Group's parent company is Dexia, a limited company under Belgian law with its shares listed on Euronext Brussels. Its registered office is located at Place du Champ de Mars 5 – B-1050 Brussels (Belgium).
These consolidated financial statements were authorised for issue by the Board of Directors on 21 March 2019.

NOTES TO THE FINANCIAL STATEMENTS

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.
The common used abbreviations below are:
• IASB: International Accounting Standards Board
• IFRS IC: IFRS Interpretations Committee (ex IFRIC)
• IFRS: International Financial Reporting Standards

1.1.1. BASIS OF ACCOUNTING

1.1.1.1. General

Dexia'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's financial statements have therefore been prepared "in accordance with all IFRSs as adopted by the EU" and endorsed by the EC up to 31 December 2018, including the conditions of application of interest rate portfolio hedging and the possibility to hedge core deposits.
Our accounting principles include mainly elements where an IFRS text allows the possibility of choice.
The consolidated financial statements of Dexia as at 31 December 2018 were prepared in accordance with the accounting rules applicable to a going concern.

This requires a number of constituent assumptions underlying the business plan for the resolution of the Dexia Group, decided upon by the European Commission in December 2012. They are listed below:
• The macroeconomic hypotheses underlying the business plan are revised as part of the half-yearly reviews of the overall plan. The update made on the basis of market data observable as at 30 June 2018 and validated by the Board of Directors of Dexia on 19 December 2018 integrates the regulatory developments known to date, including the final version of the CRD IV Directive. It also takes account of the extremely positive impact on the Dexia Group's regulatory capital of the first-time application of the IFRS 9 accounting standard as from 1 January 2018, with Dexia's Total Capital Ratio at 27.3% at the end of December 2018. Finally it takes account of the non-renewal, as from 1 January 2019, of the specific approach implemented by the European Central Bank for the supervision of the Dexia Group[1].
• The ongoing resolution assumes that Dexia retains a sound funding capacity, relying in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on the Group's capacity to raise secured funding. Since the end of 2012, Dexia has considerably reduced its funding requirement, diversified its access to different funding sources and taken advantage of favourable market conditions to extend the maturity of its liabilities, with a view to the prudent management of its liquidity. In particular, this enables the Group to maintain a level of liquidity reserves which is deemed appropriate considering the restriction of access to European Central Bank funding announced on 21 July 2017[2]. The latest update of the business plan takes account of a revision of the funding plan relying on the last observable market conditions.

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

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

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

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

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

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

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

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

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

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

1.1.1.2. Accounting estimates and judgements

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

Judgements are made principally in the following areas:

• classification of financial instruments into the appropriate category Amortised Cost, Fair Value Through Other Comprehensive Income, Fair Value Through Profit or Loss and Fair Value Option for measurement purposes based on the assessment of the Dexia'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 controls the investee, including structured entities (IFRS 10) (see 1.1.3.);

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

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

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

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

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

Estimates are principally made in the following areas:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

impairment and hedge accounting. Macro hedge accounting is addressed as a separate project by the IASB.

Changes introduced by IFRS 9 include:

– an approach for the classification and measurement of financial assets, which is driven by the business model in which an asset is held and its contractual cash flow characteristics;
– a single forward-looking model for the impairment based on expected credit losses;
– a substantially-reformed approach to hedge accounting.

In addition, IFRS 9 amends IFRS 7 "Financial Instruments: Disclosures" requiring more disclosed information about financial instruments.

The updated accounting policies to take into account IFRS 9 for classification and measurement of financial instruments and impairment of financial assets as applied from 1st January 2018 are presented in section 1.1.6.

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

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

Classification and measurement of financial assets

Based on the analysis of product characteristics, most of financial assets held by Dexia are considered as SPPI (Solely Payment of Principal and Interest) instruments and so eligible to the amortised cost according to the Dexia's business model for managing these assets. These assets are mainly vanilla floating or fixed rate loans or securities. In addition, Dexia early adopted the Amendment to IFRS 9 "Prepayment Features with Negative Compensation", issued in October 2017, which allows the instruments incorporating symmetric prepayment options to be measured at amortised cost or fair value through other comprehensive income.

Some structured loans to local public entities with a contractual interest rate based on a formula with leverage effect, indexed on currency exchange rates or long term interest rate index (such as "constant maturity swap" rates) are classified at Fair Value Through Profit or Loss (FVTPL).

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

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

According to the Orderly Resolution Plan, approved by the European Commission in 2012, Dexia no longer has any commercial activities and its residual assets are being managed in run-off without accelerated sale of the whole assets of the Group in order to protect Dexia's capital base. Consistently with this Orderly Resolution Plan, Dexia will therefore collect the cash flows over the life of a major part of the SPPI assets which are measured at amortised cost. Another part of Dexia's SPPI financial assets, isolated in dedicated portfolios, is held within a business model collect and sale when market opportunities will appear. These assets are measured at FVOCI. The trade-off between these two portfolios was subject to strategic decisions made by Dexia during 2017 which were not modified during the year 2018.

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

Impairment of financial assets

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

Hedge accounting

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

First time application options

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

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

Operational implementation of accounting principles

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

First time application impacts on the financial statements of Dexia

The adoption of IFRS 9 effective 1st January 2018 has resulted in an increase in IFRS consolidated equity as of 1st January 2018 of EUR 2,719 million. This effect is comprised of classification and measurement changes of EUR 2,899 million, as well as effects from the implementation of impairment requirements based on an ECL methodology of EUR -180 million. The application of IFRS 9 has no significant impact on deferred taxes. Further details are provided hereafter in "Presentation of effect of the standard IFRS 9 "Financial Instruments" on the balance as at 1st January 2018."

Other elements

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

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

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

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

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

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

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

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

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

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

1.1.2.4. New standard IFRS 16 "Leases"

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

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

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

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

Ongoing transition project and impacts

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

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

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

First time application principles, options and exemptions retained

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

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

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

On initial application, for contracts previously classified as operating leases under IAS 17 and considering the transition method chosen by Dexia as a lessee, Dexia will apply the following principles:
• Regarding the lease liability, on initial application Dexia will measure it at the present value of remaining lease payments, discounted for each contract using incremental borrowing rate at the transition date.
In order to determine the lease term, Dexia considers the non-cancellable period of the contract considering, if applicable, by renewal and termination options, if Dexia is reasonably certain to use an option. In accordance with the conclusion of the ANC (Autorité des Normes Comptables, Authority for Accounting Standards) on the leases with the term 3-6-9, Dexia considers that its contracts are enforceable for 9 years.
• Regarding the right-of-use asset, Dexia decided to measure it at the date of first application at the amount equal to the lease liability, determined at the transition date, adjusted by the amount of any prepaid or accrued lease payments.

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

1.1.2.5. New standard IFRS 17 "Insurance Contracts"

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

1.1.2.6. Changes in presentation of consolidated financial statements of Dexia

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

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

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

1.1.3. CONSOLIDATION

1.1.3.1. Subsidiaries and structured entities

Subsidiaries are those entities over whose Dexia 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;

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• the ability to use its power over the entity to affect those returns.

Dexia 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 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 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 and are no longer consolidated as of the date on which Dexia's control ceases. Intercompany transactions, balances and unrealised gains and losses on transactions among Dexia'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.

Changes in the Dexia'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 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 has significant influence, but does not exercise control. This is usually the case, when Dexia 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 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 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 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's presentation currency are translated into Dexia'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 entities, foreign currency transactions are accounted for using the exchange rate at the date of the transaction. Outstanding balances denominated in foreign currencies at period- or year-end are translated at period or year-end exchange rates for monetary items and non-monetary items carried at fair value. Historical rates are used for non-monetary items carried at cost. The resulting exchange differences from monetary items are recorded in the consolidated income statement; except for the foreign exchange impact related to fair value adjustments on assets measured at fair value through OCI, which is recorded under "Other comprehensive income". For non-monetary items carried at fair value, the exchange differences are governed by the same accounting treatment as for fair value adjustments.

1.1.6. FINANCIAL ASSETS AND LIABILITIES

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

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

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

1.1.6.1. Recognition and derecognition of financial instruments

Dexia 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 recognises in the income statement, any unrealised gains or losses arising from revaluing the contract to fair value at the reporting date. Dexia 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.

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

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

1.1.6.2. Classification and measurement of financial assets (IFRS9)

On initial recognition of a financial asset, Dexia 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 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.

1.1.6.2.1. Classification and measurement of debt instruments (IFRS9)

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

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

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

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

In assessing whether the contractual cash flows are SPPI, Dexia 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 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's debt instruments are mainly SPPI which includes vanilla floating or fixed rate loans or securities. Dexia'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. A business model is a matter of fact and typically observable and is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective and depending on how cash flows are generated (collecting contractual cash flows and/or selling the assets).

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

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

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

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

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

Debt instruments measured at Amortised Cost (AC)

A debt instrument is classified as measured at AC if it meets the following conditions:

- it is held within a business model whose objective is to hold financial assets to collect the contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Sales are not an integral part of the amortised cost business model but may be consistent with this business model if the realisation of disposals close to the maturity of the instrument and for an amount close to the remaining contractual cash flows, or due to an increase in the counterparty's credit risk. Sales imposed by regulatory requirements or to manage the concentration of credit risk (without an increase in the asset's credit risk) are also consistent with this business model when they are infrequent or insignificant in value.

Dexia 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 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 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 recycles the related accumulated fair value adjustments in the income statement in "Net gains (losses) on financial instruments measured at FVOCI".

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

All other debt instruments are classified in the FVTPL category and consist of assets:

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

These assets are mandatorily measured at FVTPL.

Dexia initially recognises and subsequently re-measures loans and debt securities held for trading and non-trading assets mandatorily measured at FVTPL in the line "Financial assets at fair value through profit or loss" at their fair value, with all realised and unrealised gains and losses recorded in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". According to Dexia'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 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'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 changes its business model for managing financial assets. A reclassification only occurs when changes in business model are significant to the Dexia's operations and is based on strategic decision by Dexia key management.

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

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

Financial equity instruments within the scope of IFRS 9 are classified in one of the following categories:

- Mandatorily measured at Fair Value Through Profit or Loss (FVTPL) as non-SPPI financial instrument;
- Equity instruments designated at Fair Value through Other Comprehensive Income (FVOCI).

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

Dexia 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 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 reclassifies the realised amounts within equity and presents them under the heading "Consolidated reserves". Assets classified into this category are not subject to impairment.

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

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

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

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

Hedging derivatives

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

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

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

Restructured and modified financial assets

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

A substantial modification of the terms of an existing financial asset is accounted for as an extinguishment of the original financial asset and the recognition of a new financial asset. A restructuring that leads to a derecognition is not considered as a sale of a financial asset within a business model whose objective is to hold the asset to collect the contractual cash flows over the life of the asset.

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

- SPPI / Non SPPI nature of the contractual cash flows;
- the currency that the debt instrument is denominated in;
- the interest rate;
- conversion features attached to the instrument;
- changes in covenants;
- change in counterparty.

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

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

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

1.1.6.2.5. Impairment on financial assets (IFRS 9)

The IFRS 9 standard introduces a new impairment model of financial assets based on expected credit losses (ECL). This new impairment model applies to debt instruments (loans or bonds) measured at amortised cost or measured at fair value through OCI as well as lease receivables and trade receivables. This impairment model also applies to Dexia's off balance sheet undrawn loan commitments and financial guarantee given.
The ECL model constitutes a change from the guidance in IAS 39 based on incurred losses.
In this model, each financial instrument (except assets that are purchased or originated in default) is allocated amongst 3 stages according to the wording used by IFRS 9) depending of the evolution of credit risk since initial recognition:
– Stage 1: Financial instruments that have not deteriorated significantly in credit quality since initial recognition
– Stage 2: Financial instruments that have deteriorated significantly in credit quality since initial recognition but that do not have objective evidence of a credit loss
– Stage 3: Financial assets that have objective evidence of impairment at the reporting date, i.e. the related counterparty is identified as defaulted.
A loss allowance is defined according to the stage in which the financial instrument is allocated:
• when the financial instrument is in stage 1, the amount of loss allowance is equal to 12-month expected credit losses corresponding to the lifetime cash-shortfall that would result of a default occurring in the next 12 months, weighted by the probability that the default occurs during this 12 months period.
• when the financial instrument is in stage 2 and 3, the amount of loss allowance is equal to lifetime expected credit losses, corresponding to the lifetime cash-shortfall that would result in case of a default occurring over the life of the instrument, weighted by the default probability (PD) that the default occurs over the residual maturity of the instrument.
Interest revenue for financial assets allocated in Stage 1 or 2 are calculated by applying the Effective Interest Rate (EIR) to the gross carrying amount, while for financial assets in stage 3, EIR is applied to amortised cost.
Dexia 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 developed an approach based on both a qualitative and a quantitative test to assess if there is any significant increase in credit risk since initial recognition.
The quantitative test consists in comparing lifetime average through the cycle PDs of the contract at the reporting date and at the inception date. This variation of PD is then normalised by the PD of the worst pre-default rating, defined accordingly to the sector of the counterparty. This normalisation permits to estimate the significance of the PD variation and also allows a homogeneous comparison of this variation between different sectors. These PDs are considered over a time horizon equal to the initial maturity of the financial instrument.
If the variation is above a given threshold, then, the variation of the PDs indicates that there is a significant deterioration of credit risk and that the financial instrument shall be allocated in Stage 2. This threshold is calibrated so as to anticipate a possible default in a horizon of at least 2 years, such as validated by the Dexia's Management. It is included in regular validation processes by governance bodies.
The qualitative part of the approach, relying on forward looking counterparty specific indicators, consists to allocate to stage 2 exposures which are closely followed up under the watch list process, that have been granted forbearance(1) measures or that belong to a sensitive economic sector(2).
IFRS 9 standard indicates that regardless of the way in which an entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. Given Dexia'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.

Measurement of Expected Credit Losses

Expected Credit Losses calculation for financial instruments classified in Stage 1 or 2:
Forward looking: The calculation of Expected Credit Losses is a function of rating migration probabilities, default probabilities (PD), Loss Given Default (LGD) and Exposure at Default (EAD) parameters. The rating migration probabilities, PD and LGD are point in time and forward looking, meaning they take into account current and forecasted macro economic conditions.
Capitalizing on Pilar 1 framework Dexia developed internal rating models based on sectors segmentation as well as best

(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.

estimate average PD, rating migrations and LGD models, built on a multi-year horizon based on historical data.
These best estimate parameters have been adjusted to derive IFRS 9 Point in Time (PIT) PD and LGD models which capture dependencies between various macro-economic variables and risk parameters and are built statistically by finding historical relations between them. The most relevant macro-economic variables include GDP, unemployment rate, Inflation, GDP growth, as well as yields and interest indicators. Such approach allows projecting PD, rating migrations and LGD given any state of the economy.
The PIT rating migration probabilities, default probabilities and LGD are backtested on a regular basis according to Dexia's internal backtest policy. The results of these backtests are submitted to the internal validation department and presented to the management bodies.
Scenarios: Dexia developed ECL projections for 3 macro economic scenarios: baseline, upward and downturn, the last two defined symmetrically around the baseline. The baseline macro-economic scenario consists of predictions over a 3 years time horizon on a number of macro-economic and financial market data obtained from the international institutions, such as the European Commission and the International Monetary Fund (IMF). The projections are discussed by the working group, combining experts from the Risk and Finance functions, who can additionally overrule certain forecasts if appropriate.
The methodology to construct the upturn and downturn scenarios is based upon the historical error range observed between economic forecasts and empirical observations. Probability-weighted ECLs are then obtained by weighting the various scenario ECL outcomes with probabilities of the two alternative scenarios.
Cure rate: The probability that a counterparty cures the default to return to a normal situation (i.e. with zero loss) is taken into account in all risk parameters estimation.
Credit Risk Mitigants: The credit risk deterioration is measured by the default risk evolution of the original counterpart. The guarantors contractually allocated to the exposure (for example the credit risk enhancer) are taken in account in the calculation of credit risk expected loss by applying the probability of double default of both the borrower and the guarantor. The other guarantees (like the mortgages, pledges, cash collateral) when they are not recognised separately are taken into account in the calculation of expected credit loss by reducing the loss in case of default.
Discounting: Yearly probability weighted ECLs are discounted to the reporting date by the effective interest rate.
For instruments in Stage 1 and Stage 2, interest revenue is calculated based on the gross carrying amount of the instrument according to models defined for different sub-portfolios of Dexia.

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 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 policy is therefore to recognize a loss through profit or loss upon debt forgiveness which means that no enforcement activity will take place anymore.

Accounting treatment of expected credit losses
Dexia recognizes the changes in the amount of expected credit losses related to debt instruments, loan commitments and financial guarantee contracts in profit or loss in "Cost of credit risk" as an impairment gain or loss.
For off balance sheet undrawn loan commitments and financial guarantee given, expected credit losses are booked on the liability side of Dexia's Balance sheet.
For purchased or originated credit impaired financial assets, the amount of loss allowance recognised in profit or loss is the cumulative changes in lifetime expected credit losses since initial recognition. The amount of favorable change in lifetime expected credit losses is recognised in profit or loss as an impairment gain.

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

1.1.6.3.1. Liabilities at amortised cost (IFRS9)
Dexia 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 recognises any difference between their initial carrying amount and the redemption value in the income statement over the period of the liability using the effective interest rate method.

1.1.6.3.2. Liabilities held for trading (IFRS9)
Liabilities held for trading are subject to the same accounting rules as those for loans and debt securities held for trading.

1.1.6.3.3. Liabilities designated at Fair Value Through Profit or Loss (FVO) (IFRS9)
In some cases and if appropriately documented, Dexia can irrevocably designate, on initial recognition, a financial liability as to be measured at Fair Value Through Profit or Loss (Fair Value Option (FVO)) where:
• such designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would otherwise arise ;
• a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy ;
• a hybrid instrument with one or multiple separable embedded derivatives.
For subsequent measurement, based on the IFRS 9 requirements early applied by Dexia as from 1 January 2017, Dexia 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 reclassi-

fies 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 in profit or loss.
According to Dexia's accounting policy choice, interest is recognised in net interest income.

1.1.6.4. Financial assets and liabilities (IAS 39)

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

Dexia classifies non-derivative financial assets with fixed or determinable payments that are not quoted on an active market into this category (labelled by IAS 39 as Loans and Receivables - L&R) except for:
• those that Dexia intends to sell immediately or in the near term, which are classified as held for trading, and those that Dexia, upon initial recognition, designates as being at fair value through profit or loss;
• those that Dexia, upon initial recognition, designates as available-for-sale; or
• those for which Dexia may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.
Dexia recognises interest-bearing loans and advances initially at fair value plus transaction costs and subsequently at amortised cost, less any allowance for impairment. Interest is calculated using the effective interest rate method and recognised in net interest income.
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

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

Loans and securities held for trading

Dexia reports loans held for trading purposes in the line "Financial assets at fair value through profit or loss" at their fair value, with unrealised gains and losses recorded in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest income is accrued using the effective interest rate method and is recognised in net interest income.
Trading securities are securities acquired for generating a profit from short-term fluctuations in price or dealer's margins, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Dexia initially recognises trading securities at fair value and subsequently remeasures them at fair value. All realised and unrealised gains and losses are recorded under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest earned is recognised in net interest income, and dividends received under "Net gains (losses) on financial instruments at fair value through profit or loss".

Liabilities held for trading

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

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

In some cases and if appropriately documented, Dexia can designate a financial asset, a financial liability or a group of financial instruments as "at fair value through profit or loss" where:
• such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
• a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
• an instrument contains a non-closely related embedded derivative:
– that significantly modifies the cash flows that otherwise would be required by the contract; or
– for which it is not clear, with little or no analysis, that the separation of the embedded derivative is prohibited.
Unrealised gains and losses on these assets are recorded in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest is recognised in net interest income.

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

For subsequent measurement, based on the IFRS 9 requirements early applied by Dexia as from 1 January 2017 (see 1.1.2.5.), Dexia 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 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 in profit or loss.

Derivatives - Trading portfolio

When a derivative is not designated in a hedge relationship, it is deemed to be held for trading. The main types of derivatives are the currency and the interest-rate derivatives.
Dexia, which also makes use of credit derivatives and equity derivatives, initially and subsequently measures all derivatives at the fair value obtained from quoted market prices, discounted cash flow models or pricing models, as appropriate.
All changes in fair value are recognised in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest is recognised in net interest income.
Dexia reports derivatives as assets when fair value is positive and as liabilities when fair value is negative.
Dexia treats certain derivatives embedded in other financial instruments as separate derivatives:
• when their risks and characteristics are not closely related to those of the host contract; and
• when the hybrid contract is not carried at fair value with unrealised gains and losses reported in the income statement.

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

1.1.6.4.3. Financial investments (IAS 39)

Held-to-maturity

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

Available-for-sale

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

1.1.6.4.4. Impairments on financial assets (IAS 39)

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

Financial assets valued at amortised cost

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

Determination of the impairment

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

Accounting treatment of the impairment

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

Reclassified financial assets

Dexia can reclassify financial assets initially classified as "available-for-sale" or in rare circumstances "held for trading" into "held-to-maturity" or "loans and receivables" categories. Thus, a reclassification to "loans and receivables" is possible when assets "available-for-sale" are not any longer quoted in active markets and when Dexia has the intent and the ability to hold the asset in the foreseeable future or to maturity.
A reclassification to "held-to-maturity" is possible as a result of a change in Dexia's intention regarding "available-for-sale" assets, when Dexia has the intention and ability to hold these financial assets until maturity and provided that these assets are non-derivative assets with fixed or determinable payments and fixed maturity.
In such circumstances, the fair value of "available-for-sale" assets at the date of transfer becomes the new amortised cost of those financial assets. Any fair value adjustment previously recognised under "Other comprehensive income" is "frozen" and amortised on the residual maturity of the instrument. Regarding the calculation of impairment, reclassified financial assets are governed by the same estimates, judgements and accounting principles as financial assets initially valued at amortised cost. If there is objective evidence that reclassified financial assets are impaired, Dexia calculates the amount of the impairment on reclassified assets as the difference between the net carrying amount of the asset and the net present value of the expected cash-flows discounted

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at the recalculated effective yield at the time of reclassification. Any unamortised part of the frozen AFS reserve is recycled in the income statement and reported under the heading "Cost of risk" as a part of the impairment.

Available-for-sale assets

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

Determination of the impairment

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

Accounting treatment of the impairment

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

Off-balance-sheet exposures

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

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

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

Case of early repayment with refinancing

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

Case of early repayment without refinancing

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

1.1.6.4.6. Borrowings (IAS 39)

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

1.1.7. FAIR VALUE OF FINANCIAL INSTRUMENTS

1.1.7.1. Valuation principles

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Quoted market prices in an active market for identical instruments are to be used as fair value, as they are the best evidence of the fair value of a financial instrument.
If a financial instrument is not traded on an active market, recourse is provided by valuation models. The objective of a valuation model is to determine the value that is most representative of fair value under current market conditions. Dexia'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 for the hierarchy levels are in line with IFRS 13 texts:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

• Level 2: valuation techniques based on inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
• Level 3: valuation techniques for which significant inputs are not based on observable market data.
According to Dexia's policy, transfers between levels of the fair value hierarchy are performed at fair value at the end of the reporting period.
Since 1 January 2018, the approach applied for the allocation by fair value levels has been refined to take into account the additional market observations used for the valuation of financial instruments following the implementation of IFRS 9, in particular for assets measured until now at amortised cost under IAS 39.

1.1.7.2. Valuation techniques
Dexia'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's approach to the valuation of its financial instruments is based as much as possible on observable market data. These valuations are based on independent external market data providers and standard quantitative approaches. The departments Financial Market Risk and Product Control regularly monitor the quality of valuations:
• the valuations of derivatives are compared with those provided by a number of counterparties and analysed quarterly during an ad hoc committee;
• transaction execution levels are used to ensure the quality of the valuation approaches;
• the valuation approaches are regularly reviewed and are subject to validation by the Department of Validation.
In order for a fair value to qualify for level 2 inclusion, observable market data should be significantly used. The market data that Dexia incorporates in its valuation models are either directly observable data (prices), indirectly observable data (spreads) or deducted from observable data (price or spread) for similar instruments. Fair value measurements that rely significantly on unobservable data or on own assumptions qualify for level 3 disclosure.
The fair value governance involves several committees that deal with valuation issues. The highest one, the Management Board supervises major decisions taken by lower levels committees (Market Risk Committee and Validation Advisory Committee). This governance ensures a strong control framework for valuation issues as well as the independence between the Front Office, Market Risk and Validation teams, with the aim of producing reliable valuation estimates for the risk monitoring of the trading activity as well as for a fair presentation of the financial and solvency situation of the Group. Dexia general principles for the valuation ensure the use of quoted and observable prices when available or valuation models that take into account all factors that market participants would consider. Models are developed by the Front Office Funding and Markets or Financial Market Risk and are validated by the Department of Validation. Depending on their availabilities, data may come from different sources as tradable or indicative quotes. They are produced by Product Control. An inventory of the products is regularly produced, with their main features, their materiality and their model status.
For bonds and loans for which no active market exists, Dexia maximises the use of market data.
Dexia uses a discount cash-flow model, based on a credit spread. The credit spread is estimated from market data which are directly available from external contributors (Bloomberg, Markit,…) or, when there is no data available for a given instrument, from the issuer credit curve which is adjusted to take into account the characteristics of the specific instrument (maturity,…), or, if the issuer curve is not available, from available market data for similar instruments (from the same economic sector, rating, currency,…).
Concerning the valuation of derivatives, Dexia 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's own credit risk.
When determining the CVA / DVA, Dexia 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 uses for the discounting an overnight rate (OIS) curve for all derivatives, regardless if they are collateralised or not.
A Funding Valuation Adjustment (FVA) takes into account the funding costs associated to its uncollateralised derivative positions. As these uncollateralised derivatives are not subject to margin calls, the bank benefits from savings in funding or bears the cost depending on the direction of their net balance sheet position, and on the market values of these derivatives. The level of funding costs used in determining the FVA reflects the funding of the exposure related to uncollateralised derivatives at rates different from overnight rates.

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

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

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

1.1.8. INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest rate method based on the initial carrying value (including transaction costs) for financial instruments not valued at fair value through P&L.
Transaction costs are the incremental costs that are directly attributable to the acquisition of a financial asset or liability. An incremental cost is one that would not have been incurred if the entity had not acquired the financial instrument.
Accrued interest is reported in the same line as the related financial asset or liability in the balance sheet.
Interest income and expenses on derivatives are presented on a gross basis by instrument.
Following the decision of IFRS IC and according to the view of the European Banking Authority (EBA), Dexia presents negative remuneration on assets together with interest expense and positive remuneration on liabilities together with interest income.

1.1.9. FEE AND COMMISSION INCOME AND EXPENSE

Revenue is measured based on the consideration specific in a contract with a customer and excludes amounts collected on behalf of third parties. Dexia recognises revenue when it transfers the control over a product or service to a customer.
Commissions and fees arising from most of Dexia's activities are recognised on an accrual basis over the life of the underlying transaction.
Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of loans, equity securities or other securities or the purchase or sale of businesses, are recognised when the significant act has been completed.
According to IFRS 9, loan commitment fees are recognised as part of the effective interest rate according to IFRS 9 if the loan is granted, and recorded as revenue on expiry if no loan is granted.
Fees that are not an integral part of the effective interest rate are accounted for under IFRS 15. These include fees charges for a servicing loan, commitment fees to originate a loan when the loan commitment is not measured at fair value through profit or loss and it is unlikely that a specific lending agreement will be entered into, and loan syndication fees received by Dexia that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants).
Financial guarantee contracts fees that are not designated at fair value through profit or loss and not in the scope of IFRS 4 "Insurance contracts" are recognised in accordance with IFRS 15.

1.1.10. HEDGING DERIVATIVES

While awaiting the future standard on macro hedging, and as permitted under IFRS 9, Dexia keeps applying the current hedge accounting requirements (IAS 39) for all its micro and macro-hedge relationships.
Hedging derivatives are categorised as either:
- a hedge of the fair value of a recognised asset or liability or a firm commitment (fair value hedge); or
- a hedge of a future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge); or
- a hedge of a net investment in a foreign operation.

Dexia 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 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 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 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 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 performs a global analysis of interest rate risk exposure. It consists in assessing fixed-rate exposure, taking into account all the exposure coming from balance sheet and off-balance-sheet items. This global analysis may exclude certain components of the exposure, such as financial market activities, provided that the risk exposure stemming from the excluded activities is monitored on an activity-by-activity basis.

Dexia applies the same methodology to select which assets and/or liabilities will be entered into the hedge of interest rate risk exposure of the portfolio. Assets and liabilities are included in all the time buckets of the portfolio. Hence, when they are removed from the portfolio, they must be removed from all the time buckets in which they had an impact. Demand deposits and savings accounts may be included in the portfolio based on behavioural study for estimating expected maturity date. Dexia 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 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 recognises the hedging items at fair value with adjustments accounted for in the income statement.

Dexia 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 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 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 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 will recognize in the income statement the part of the day one profit or loss relating to the partial early termination.

1.1.13. TANGIBLE FIXED ASSETS

Tangible fixed assets include property, plant & equipment and investment properties.

All property, plant & equipment are stated at their cost less accumulated depreciation and impairments. Subsequent costs are, where necessary, included in the carrying amount of the asset or recognised as a separate component, if it is probable that future economic benefits will flow to the Group and the cost of the asset can be reliably measured.

Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives.

The main useful lives are as follows:

- Buildings (including acquisition costs and non deductible taxes): 20 to 50 years;
- Computer equipment: 3 to 6 years;
- Leasehold improvements, equipment and furniture: 2 to 12 years;
- Vehicles: 2 to 5 years.

An item of property, plant & equipment can be composed of significant parts with individually varying useful lives. In such a case, each part is depreciated separately over its estimated useful life. The following parts have been defined:

- Structure of the building: 50 years;
- Roof and frontage: 30 years;
- Technical installations: 10 to 20 years;
- Fixtures and fittings: 10 to 20 years.

As borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset they are capitalised. Other borrowing costs are recognised as an expense.

Tangible fixed assets are tested for impairment when an indication of impairment loss exists. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Where the recoverable amount of an asset cannot be determined individually the Group determines the recoverable amount of the cash generating unit or group of cash generating units to which the asset belongs. Gains and losses on disposals of property and equipment are determined by reference to their carrying amount and are included under "Net gains (losses) on other assets".

Investment properties are those properties held to earn rentals or for capital appreciation. Dexia may also partly use such properties. If the "own use" portions can be sold separately or leased out separately under finance lease, then these portions are accounted for separately. If the "own use" portions cannot be sold separately, the property will be considered as an investment property if Dexia holds an insignificant portion for its own use.

Investment properties are recorded at its cost less accumulated depreciation and impairments. The investment properties are depreciated over their useful lives on a straight-line basis. Depreciation on buildings and other assets given in operating lease are booked under "Other expenses".

1.1.14. INTANGIBLE ASSETS

Intangible assets consist mainly of (a) internally generated and (b) acquired software. The costs associated with maintaining computer software programs are recognised as expense as incurred. However, expenditure that enhances or extends the benefits of computer software programs beyond one year is used to increase the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives from the time the software is available for use. This amortisation period is usually between three and five years, except for core business applications, for which the amortisation period is can be up to 10 years.

As borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset they are capitalised. Other borrowing costs are recognised as an expense.

Intangible assets (other than goodwill) are tested for impairment when an indication of impairment loss exists. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Gains and losses on disposals of intangible assets are determined by reference to their carrying amount and are included under "Net gains (losses) on other assets".

1.1.15. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets (or groups of assets) whose carrying amount will be recovered principally through a sale transaction rather than through continuing use are classified as non-current assets (or disposal groups) "held for sale" if:
- they are available for immediate sale in their present condition; and
- their sale is highly probable within one year.

Dexia measures a non-current asset (or disposal group) classified as held for sale at its carrying amount or at its fair value less costs to sell (whichever is the lower). Non-current assets (or disposal groups) classified as held for sale are presented separately in the balance sheet, without restatement for previous periods. When a disposal group is classified in held for sale, items of Other Comprehensive Income are isolated in a separate publication line of the equity. These assets are no longer depreciated once they qualify as assets (or disposal groups) held for sale. Intercompany accounts between the continuing activities and the disposal group held for sale continue to be eliminated.
A discontinued operation is defined as a component of an entity that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations. Post-tax profit or loss of discontinued operations is presented under a separate line in the income statement. A restatement for previous periods is performed.

1.1.16. GOODWILL

Dexia has no goodwill on its balance sheet and will not acquire any controlling interests in the future following the orderly resolution plan of the group.

1.1.17. ACCRUALS AND OTHER ASSETS

Accruals and other assets mainly include accrued income (non-interest related), prepayments, operational taxes and other accounts receivable as well as insurance products (reinsurance, insurance premiums receivables, etc.), construction contracts, inventories, plan assets relating to employee benefit obligations. These other assets are measured in accordance with the applicable standard. Plan assets are recognised in accordance with IAS 19 (revised) requirements.
Cash collaterals, presented in accruals under IAS 39, are now included within "Financial assets at amortised cost".

1.1.18. LEASES

A finance lease is one that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

1.1.18.1. Dexia is the lessee

Dexia grants operating leases principally for the rental of equipment or real estate. Lease rentals are recognised in the income statement on a straight-line basis over the lease term.
When an operating lease is terminated before the lease period has expired, any payment to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.
If the lease agreement substantially transfers the risk and rewards of ownership of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception the asset is recorded as the present value of the minimum lease payments or the fair value (whichever is the lower) and is depreciated over its estimated useful life unless the lease term is short and the title is not expected to be transferred to Dexia. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policies applicable to that asset. The corresponding rental obligations are recorded as borrowings and interest payments are recorded using the effective interest rate method.

1.1.18.2. Dexia is the lessor

Dexia grants both operating and finance leases.
Revenue from operating leases is recognised in the income statement on a straight-line basis over the lease term. The underlying asset is accounted for in accordance with the accounting policies applicable to this type of asset.
For finance leases, Dexia recognises "leases receivable" at an amount equal to the net investment in the lease, which can be different from the present value of minimum lease payments.
The interest rate implicit in the lease contract acts as the discount rate. Interest income is recognised over the term of the lease using the interest rate implicit in the lease.

1.1.19. SALE AND REPURCHASE AGREEMENTS AND LENDING OF SECURITIES

Securities sold subject to a linked repurchase agreement ("repos") are not derecognised because, despite the transfer of ownership of securities, there is no substantial transfer of risks and rewards and remain in their original category. The corresponding liability is entered under "Interbank borrowings and deposits" or "Customer borrowings and deposits", as appropriate. The asset is reported as "pledged" in the notes.
Securities purchased under agreements to resell ("reverse repos") are recorded as off-balance-sheet items and the corresponding loans recorded as "Interbank loans and advances" or "Customer loans and advances".
The difference between the sale and repurchase price is treated as interest income or expense and is accrued over the life of the agreements using the effective interest rate method.
Securities lent to counterparties are not derecognised but, rather recorded in the financial statements in the same heading.
Securities borrowed are not recognised in the financial statements.
If they are sold to third parties, the gain or loss is entered under "Net gains (losses) on financial instruments at fair value through profit or loss" and the obligation to return them is recorded at fair value under "Financial liabilities at fair value through profit or loss".

1.1.20. DEFERRED INCOME TAX

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.
The principal temporary differences arise from the depreciation of property, plant & equipment, the revaluation of certain financial assets and liabilities (including derivative contracts, provisions for pensions and other post-retirement benefits), provisions for loan and other impairments and, in relation to acquisitions, from the difference between the fair value of the net assets acquired and their tax base.

The tax rates used are the rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.
Deferred tax assets and liabilities are not discounted. Deferred tax assets on deductible temporary differences and tax loss carry-forwards are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences and tax losses can be utilised.
Deferred tax liability is provided on taxable temporary differences arising from investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.
Current and deferred taxes are recognised under "Corporate income tax" in the income statement together with related interests and penalties if they are deemed equivalent to these taxes. Otherwise interests and penalties on late payments related to income taxes are recognised in the interest margin in net banking income.
On the other hand, deferred tax related to the fair value remeasurement of assets measured at FVOCI and cash flow hedges, and other transactions recorded directly in equity, are also credited or charged directly to equity.

1.1.21. EMPLOYEE BENEFITS

1.1.21.1. Short-term benefits

Short-term benefits, payable before 12 months after the end of the annual reporting period in which the service is rendered, are measured on an undiscounted basis and recognised as an expense.
Employee entitlement to annual leave or long-service leave is recognised when it is granted to the employee. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance-sheet date.

1.1.21.2. Post-employment benefits

If Dexia has a legal or constructive obligation to pay post-employment benefits, the plan is either classified as "defined benefit" or "defined contribution plan". Dexia 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 and its employees.
In some cases, Dexia provides post-retirement health care benefits to its retirees.

1.1.21.2.1. Defined benefit plans

Employee benefit obligations are measured at the present value of the estimated future cash outflows using the interest rates of AA-rated corporate bonds, which have terms to maturity approximating to the terms of the related liability. The valuation technique for the assessment of pension expenses incorporates actuarial assumptions comprising both demographic assumptions and financial assumptions such as the inflation rate.
For defined benefit plans, the cost is determined using the Projected Unit Credit Method, under which each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to built up the final obligation.
The amount recognised in the balance sheet is the present value of the defined benefit obligation (i.e., the present value of the expected future payments required to settle the obligation resulting from the employee service in the current and prior periods), reduced by the fair value of plan assets at the balance-sheet date. The defined obligation is presented net of plan assets as a liability or an asset. Therefore, an asset may arise where a plan has been overfunded and are recorded separately if those assets are held by a Group entity. Any asset recognised is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.
Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets (excluding net interest) and any change in the effect of the asset ceiling (excluding net interest), they are recognised immediately in other comprehensive income and are not reclassified to profit or loss in a subsequent period.
Current service cost, past service cost (which is the change in the present value of the defined benefit obligation, resulting from a plan amendment or a curtailment) and any gain or loss on settlement are recognised in profit or loss.
Net interest on the net defined benefit liability (asset) is recognised in profit or loss. It is calculated by applying the discount rate used to measure the defined benefit obligation to the net defined benefit liability (asset), both as determined at the start of the annual reporting period, and taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
Qualified external actuaries carry out valuations of these defined benefit obligations. All valuations assumptions and results are reviewed and validated by an external actuary for Dexia 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's contributions to defined contribution pension plans are charged to the income statement in the year to which they relate. Under such plans, Dexia's obligations are limited to the contributions that Dexia agrees to pay into the fund on behalf of its employees.
The Belgian defined contribution pension plans are by law subject to minimum guaranteed return.
As a consequence of the Belgian law of 18 December 2015, minimum returns are guaranteed by the employer as follows: (i) for the contributions paid as from 1 January 2016, a new variable minimum return based on OLO rates, with a minimum of 1.75% and a maximum of 3.75%. In view of the low rates of the OLO in the last years, the return has been initially set to 1.75%, (ii) for the contributions paid until end December 2015, the previously applicable legal returns (3.25% and 3.75% respectively on the employer and employee contributions) continue to apply until retirement date of the participants.
The rates set for employer contributions and employee contributions apply as an average over the entire career.
In view of the minimum returns guarantees, those plans qualify as Defined Benefit plans and are determined using the Projected Unit Credit Method.

1.1.21.2.3. Retirement termination payments

Retirement termination payments are treated as defined benefit plans.

1.1.21.3. Other long-term benefits

These mainly includes provisions for jubilee premiums that employees receive after completion of specified periods of service.

Unlike defined benefit plans, actuarial gains and losses relating to these benefits are immediately recognised. All past service costs are recognised immediately in the income statement.

1.1.21.4. Termination benefits

A termination benefit provision is recorded at the earlier of the following dates:

- when Dexia can no longer withdraw the offer of those benefits; and
- when Dexia recognises costs for a restructuring that involves the payment of termination benefits.

1.1.21.5. Share-based payment

Dexia 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 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)

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's ordinary shares

Dexia 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.

1.1.23.3. Preferred shares

Dexia classifies preferred shares that are non-redeemable and upon which dividends are declared at the discretion of the directors as equity.

1.1.23.4. Treasury shares

When Dexia or its subsidiaries purchase from an entity outside the group Dexia's shares or shares of a subsidiary, the consideration paid, including any attributable transaction costs net of income taxes, is shown as a deduction from total shareholders' equity. Gains and losses on sales of own equity securities are charged or credited to the treasury share account in equity.

1.1.24. FIDUCIARY ACTIVITIES

Assets and income arising thereon, together with related undertakings to return such assets to customers, are excluded from these financial statements in cases where Dexia acts in a fiduciary capacity such as nominee, trustee or agent.

1.1.25. 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.

1.1.26. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with a maturity of less than 3 months maturity from the date of acquisition included within cash and balances with central banks, interbank loans and advances.

1.1.27. EARNINGS PER SHARE

The "Basic earnings per share" are calculated by dividing the net income available to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by Dexia and held as treasury shares.

For the "Diluted earnings per share", the weighted average number of ordinary shares in issue and the net income are adjusted to assume conversion of all dilutive potential ordinary shares, such as the convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when the derivatives are "in the money" and their conversion to shares would decrease net earnings per share.

1.2 Ownership interest in subsidiaries and other entities

a. Criteria for consolidation and use of the equity method

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

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

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

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

• IFRS 11 on Joint Arrangements.

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

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

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

Entities are considered as non-significant when, at consolidated level, the aggregate of their total asset, liabilities, equity and net income does not exceed 1% of the total of consolidated balance sheet and net income (respectively EUR 1.59 billion and EUR 4.38 million (average on 3 years) in 2018). As at 31 December 2018, the sum of the total balance sheet and net income of unconsolidated entities does not exceed this threshold.

b. Changes in the consolidation scope compared with 31 December 2017

On March 17, 2018, Dexia reached an agreement with qualified investors concerning an off-market transaction about the sale of all its shares in Dexia Israel, representing 58.89% of the capital. The sale was agreed at a price of NIS 674 per share, for a total amount of around EUR 81 million.

Dexia therefore deconsolidated the company on January 1, 2018,

White Rock Insurance (Gibraltar) PCC Limited, CELL DSA – SPV is deconsolidated in 2018 as it has no more activities.

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

Dexia 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 (losses) on other assets*.

This gains includes a positive amount of EUR 28 million for the reclassification of the translation adjustments in net income and a negative amount of EUR – 20 million due to the difference between the sale price and the share of Dexia in Dexia Israel's own funds.

d. Scope of the Dexia Group as at 31 December 2018

A. Fully consolidated entities

		31/12/2017			31/12/2018			
Name	**Country**	**Method**	**Control rate**	**Interest rate**	**Method**	**Control rate**	**Interest rate**	**Ref**
PARENT COMPANY								
Dexia S.A.	Belgium							
Dexia S.A. Etablissement Stable France	France	FC	100	100	FC	100	100	
SUBSIDIARIES								
Dexia CLF Régions Bail	France	FC	100	100	FC	100	100	
Dexia Crediop	Italy	FC	70	70	FC	70	70	
Dexia Crédit Local SA	France	FC	100	100	FC	100	100	
Dexia Financial Products Services LLC (2)	USA	FC	100	100	FC	100	100	
Dexia Flobail	France	FC	100	100	FC	100	100	
Dexia FP Holdings Inc (1)	USA	FC	100	100	FC	100	100	
Dexia Holdings, Inc	USA	FC	100	100	FC	100	100	
Dexia Israel Bank Ltd.	Israel	FC	58.89	58.89				S3
Dexia Kommunalbank Deutschland AG	Germany	FC	100	100	FC	100	100	
Dexia Nederland BV	The Netherlands	FC	100	100	FC	100	100	
FSA Asset Management LLC (2)	USA	FC	100	100	FC	100	100	
FSA Capital Management Services LLC (2)	USA	FC	100	100	FC	100	100	
FSA Capital Markets Services LLC (2)	USA	FC	100	100	FC	100	100	
FSA Global Funding LTD (1)	Cayman Islands	FC	100	100	FC	100	100	
FSA Portfolio Asset Limited (UK) (2)	UK	FC	100	100	FC	100	100	
Premier International Funding Co (3)	Cayman Islands	FC	0	0	FC	0	0	
White Rock Insurance (Gibraltar) PCC Limited, CELL DSA - SPV	Gibraltar	FC	100	100				S1
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.

Méthod *FC: Fully Consolidated*
Ref *Out of scope*
S1: Cessation of activity (including dissolution, liquidation)
S2: Company deconsolidated since become below the thresholds
S3: Disposal

B. Non fully consolidated subsidiaries and associated companies not accounted for by the equity method

Name	Country	31/12/2017 Method	Control rate	Interest rate	31/12/2018 Method	Control rate	Interest rate	Ref
DCL Evolution	France	not FC	100	100	not FC	100	100	
Dexia Certificaten Nederland BV (in liquidation)	The Netherlands	not FC	100	100	not FC	100	100	
Dexia Crediop Ireland	Ireland	not FC	100	70				S1
Dexia Crédito Local México SA de CV (Sofom Filial)	Mexico	not FC	100	100	not FC	100	100	
Dexia Kommunalkredit Romania	Romania	not FC	100	100	not FC	100	100	
Dexia Management Services Limited	UK	not FC	100	100	not FC	100	100	
Dexiarail	France	not FC	100	100	not FC	100	100	
European public infrastructure managers	Luxembourg	not EM	20	20	not EM	20	20	
Genebus Lease	France	not FC	100	100	not FC	100	100	
Hyperion Fondation Privée	Belgium	not FC	100	100	not FC	100	100	
Impax New Energy Investor	Luxembourg	not EM	24.99	24.99	not EM	24.99	24.99	
Nederlandse Standaard I.J. (in liquidation)	The Netherlands	not FC	100	100	not FC	100	100	
New Mexican Trust	Mexico	not FC	100	100	not FC	100	100	
Progetto Fontana (in liquidation)	Italy	not FC	100	100	not FC	100	100	
South European Infrastructure Equity Finance Ltd Partnership	Luxembourg	not EM	20.83	20.83	not EM	20.83	20.83	
SPS - Sistema Permanente di Servizi Scpa in liquidazione e concordato preventivo	Italy	not EM	20.40	14.28	not EM	20.40	14.28	

Ref *Out of scope*
S1 : Cessation of activity (including dissolution, liquidation)
S2 : Company deconsolidated since become below the thresholds
S3 : Disposal

Method *FC : Fully Consolidated*
not FC : not Fully Consolidated
not EM : not accounted for by the Equity Method

C. Other significant companies held by the Group

Nil.

Nature of the risks associated with Dexia'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 did not provide financial or other support to a consolidated structured entity when Dexia was not contractually obliged to do so, nor has an intention to do so in the future. Dexia did not provide financial or other support resulted in the control of the structured entity.

e. Significant restrictions on assets and liabilities of an entity

Following IFRS 12, Dexia 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 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 customer. This vehicle is financed through the issuance of notes.

Interests in unconsolidated structured entities (in EUR million)	**Securitisation Special Purpose Entities**	**Other activities**	**Total**
Derivatives	160		160
Debt securities	250		250
Loans and advances	50	15	65
TOTAL	**460**	**15**	**475**
Total assets of unconsolidated structured entities	**750**	**15**	**765**

The maximum exposure to loss is the fair value of derivatives and the amortised costs of other instruments.
Dexia 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, as a run-off structure does not have income anymore from sponsored structure without interest in the entity as at 31 December 2018.

g. Subsidiaries with minority interests that are material

Minority interests are considered material when they represent more than 5% of equity group share or when minority interests represent more then 5% of total assets.

Dexia Crediop s.p.a	**31/12/2017**	**31/12/2018**
Percentage of ownership held by minority interests	30%	30%
Principle place of business	Italy	Italy
Accumulated minority interests (in EUR million)	282	280
Profit or loss allocated to minority interests (in EUR million)	(1)	(26)
Dividend paid to minority interests	0	0
Assets (in EUR million)	20,531	18,320
Liabilities (in EUR million)	19,590	17,387
Equity (in EUR million)	941	933
Net banking income (in EUR million)	36	(60)
Profit or loss (in EUR million)	(3)	(86)
Total comprehensive income (in EUR million)	(4)	(86)

h. Signature of a sale and purchase agreement concerning Dexia Kommunalbank Deutschland

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

The transaction is expected to close during the second quarter of 2019. It will have a non-significant impact on Dexia's solvency and will account for a reduction of approximately 15% of its balance sheet.
Pursuant to the transaction, Dexia will also terminate, with effect as of the closing date of the sale, the Letters of Support it had issued to DKD.

In accordance with the IFRS 5 accounting standard, DKD's assets and liabilities are presented on a separate line in the Group's consolidated balance sheet, in *Non current assets held for sale* and *Liabilities included in disposal groups held for sale*. DKD's post-tax income has also been classified on a separate line in the Group's consolidated income statement *Result from discontinued operations, net of tax*.
See note 4.6 *Information on disposals groups held for sale and discontinued operations*.

1.3 Significant items included in the statement of income

Over the year 2018, Dexia posted a net result Group share of EUR - 473 million. (EUR - 462 million in 2017).
According to the IFRS 5 standard, Dexia Kommunalbank Deutschland's contribution to the result is presented in *Result from discontinued operations*, *net of tax* for EUR +23 million and the presentation of the 2017's consolidated statement of income has been restated.
The net banking income was negative, at EUR -232 million. As in 2017, in addition to the carrying costs of assets, this amount in particular included negative impacts associated with the valuation of derivatives, as well as disposals gains and provisions for legal risk.
Net gains and losses on financial instruments at fair value through profit or loss, at EUR -144 million (EUR -108 million in 2017), included an amount of EUR -188 million for accounting volatility elements depending on the evolution of the market parameters which directly impact the value of certain elements (derivatives valued on the base of an OIS curve, CBS, calculation of the Credit Value Adjustment, Debit Value Adjustment and Funding Value Adjustment). In 2017, this amount represented EUR + 54 million.
In 2018, a charge of EUR -73 million was booked for the Funding Value Adjustment (EUR + 40 million in 2017), which represents the funding cost related to non-collateralised derivatives. This negative impact is related to an adjustment in the calculation methodology used by Dexia as well as an increase in the funding cost for the banking sector in the 4th quarter. The Credit Value Adjustment, adjustment to the value of derivatives related to the counterparty risk, was also negative at EUR -35 million (EUR + 119 million in 2017) due to a widening of credit spreads, particularly on bank counterparties. The Debit Value Adjustement, adjustment for own credit risk of the value of derivatives amounted to EUR + 5 million (EUR -32 million in 2017).
Variation in market parameters during the year also had a negative impact on hedging inefficiencies. In particular, the valuation of derivatives was marked by the unfavorable evolution of the BOR/OIS spreads in pound sterling.
Net gains and losses on financial instruments measured at fair value through other comprehensive income amounted to EUR -91 million, following the disposals in line with the proactive strategy of reducing the balance sheet. As at 31 December 2017, the *Net gains (losses) on financial assets available for sale was* EUR - 187 million.
Net gains and losses arising on derecognition of financial assets measured at amortised cost, at EUR -16 million included both EUR -6 million as result on anticipated reimbursements of financing or liabilities and EUR -10 million on assets disposals and anticipated reimbursement of debt instruments : Spanish projects were sold due to the worsen-

ing of their financial position and the concentration on some US local authorities was reduced.
The *net other results*, at EUR -26 million resulted from the net provision for litigations.
Costs amounted to EUR -386 million (EUR -392 million in 2017) and included an increase in taxes and regulatory contributions compare to the 2017 financial year.
In 2018, in total, regulatory taxes and contributions amounted to EUR -105 million, accounted for in *Operating expenses* for EUR -92 million (including an exceptional contribution from Dexia Crediop to the Italian national resolution fund for EUR -3 million) et for EUR -13 million in *Result from discontinued operations, net of tax*, for DKD's contribution. In 2017, those taxes and contributions amounted to EUR -89 million.
The *cost of credit risk* presented a positive amount of EUR +128 million (EUR +33 million in 2017).
This positive impact is mainly due to reversals of provisions following the sale of exposures related to the Commonwealth of Puerto Rico and the repayment of a receivable in Bulgaria, as well as the reversal of collective provisions on some exposures, in particular the Portuguese sovereign. Those positive effects were partially offset by the provisioning of the Chicago Board of Education exposure.
Dexia disposed of all its shares in Dexia Israel Bank for an amount of approximately EUR 81 million with a net positive result of about EUR +8 million in *Net gains (losses) on other assets*.

1.4. Other significant event of the year

The implementation of the outsourcing agreement signed in early October 2017 with Cognizant resulted in the transfer of IT services in November 2017 and credit and market back offices in May 2018. This partnership with Cognizant marks an important step in securing Dexia's operating model.
During the phase of implementing the outsourcing agreement with the service provider Cognizant, outsourcing risks were monitored by the Dexia Risk Management to ensure the proper implementation of operations and risk governance via joint Dexia/Cognizant committees. A specific team was created to check the provision and quality of the services provided by Cognizant, whilst the effective supervision of outsourced activities was realised by the Internal Control of the Dexia and Cognizant entities. In particular, a specific projects programme was launched by Dexia and Cognizant to achieve the objectives defined in the outsourcing agreement regarding IT systems security.

1.5. Post-balance-sheet events

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

Dexia was informed in February 2019[1] that the Belgian and French States had notified the European Commission of the renewal, beyond 31 December 2021, of the funding guarantee from which Dexia benefits. On the basis of the draft notification, the commission which would be payable by Dexia to the States on its liquidation as remuneration for the guarantee may absorb any net liquidation proceeds of Dexia, as a result of which the holders of hybrid Tier 1 debt of Dexia and Dexia Crédit Local, as well as the shareholders of Dexia would not receive any proceeds.

1.6. Presentation of the effect of the standard IFRS 9 on the balance as at 1st January 2018

IMPACT ON IMPAIRMENTS AND PROVISIONS

The implementation of a new approach in terms of credit risk provisioning, as described in the accounting policies and valuation methods for the consolidated accounts (note 1 § 1.1.6.2.5) led to a net increase of provisions of EUR 180 million of which EUR 5 million related to activities held for sale (Dexia Israel).
A little more than the half of the stage 2 provision related to the Portugese sovereign and to the Portugese local sector following their rating deterioration since origination.
The detail of the amounts (except those related to activities held for sale) is presented hereunder.

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

(in EUR million)	As at 31/12/2017 IAS 39/IAS 37		Reclassification	Remeasurement following expected credit losses	As at 01/01/2018 IFRS 9				
	Specific impairment	Collective impairment			Stage 1	Stage 2	Stage 3	POCI (1)	Total
Allowances on financial assets	**258**	**331**	**0**	**162**	**10**	**497**	**233**	**13**	**752**
Financial assets at amortised cost									
– Interbank loans and advances		19		(16)		2			2
– Customer loans and advances	257	312	(203)	(34)	2	153	165	13	333
– Debt securities			181	222	5	334	64		403
– Other assets	1						1		1
Financial assets at fair value through OCI			22	(10)	3	8	1		12
Provisions on commitments and financial guarantees given	**1**			**12**		**7**	**6**		**13**

(1) Purchased or Originated Credit Impaired debt instruments

IMPACT ON THE BALANCE-SHEET

The following tables present the transition of assets and liabilities, from the presentation according the accounting standard IAS 39 to the presentation according to the accounting standard IFRS 9.
The implementation of the classification under IFRS 9 is described in the accounting policies and valuation methods for the consolidated accounts (note 1 § 1.1.6.2).
The consolidated financial statements of the Dexia group are presented as described by the French ANC (Autorité des normes comptables, Authority for accounting standards).
Dexia applies the recommandation n°2017-02 dated 2 june 2017.

ASSETS (in EUR million)	**31/12/2017 IAS 39**	**Reclassifications**						**Carrying amount after reclassification**
		Modification in ANC presentation (A)	**Financial assets available for sale (B)**	**Financial assets held to maturity (B)**	**Non-SPPI financial assets (C)**	**Business model modification (D)**	**Other (E)**	
Cash and central banks	10,721							10,721
Financial assets at fair value through profit or loss	13,188		149		4,851	(985)	7	17,210
Hedging derivatives	4,985						(7)	4,977
Financial assets available for sale	10,830		(10,830)					
Financial assets at fair value through other comprehensive income			39			11,585	139	11,763
Financial assets at amortised cost - Debt securities		43,094	10,642	1,750	(662)	(7,475)		47,349
Interbank loans and advances	6,144	(6,144)						
Financial assets at amortised cost - Interbank loans and advances		30,676						30,676
Customer loans and advances	99,264	(99,264)						
Financial assets at amortised cost - Customer loans and advances		61,627			(4,189)	(3,125)		54,312
Fair value revaluation of portfolio hedges	1,314						(139)	1,175
Financial assets held to maturity	1,750			(1,750)				
Current tax assets	19							19
Deferred tax assets	29							29
Accruals and other assets	30,550	(29,989)						562
Non current assets held for sale	2,105							2,105
Tangible fixed assets	4							4
Intangible assets	35							35
TOTAL ASSETS	**180,938**	**0**	**0**	**0**	**0**	**0**	**0**	**180,938**

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

Some modifications were brought to the presentation in the face of the balance sheet following the ANC recommandation n°2017-02 dated 2 june 2017.

As at 31/12/2017, cash collaterals were included in the item *Accruals and other assets* (EUR 29 989 million). As at 01/01/2018, following the format proposed by the ANC, they are included in item *Financial assets at amortised cost - Interbank loans and advances* (EUR 26 431 million) and in item *Financial assets at amortised cost - Customer loans and advances* (EUR 3 557 million).

Moreover, debt securities included as at 31//12/2017 in the items *Interbank loans* and advances (EUR 1 900 million) and *Customer loans and advances* (EUR 41 194 million) are now accounted for in the new item *Financial assets at amortised cost - Debt securities* (EUR 43 094 million)

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

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

(C) Non-SPPI financial assets

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

(D) Business model modification

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

(E) Others

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

ASSETS (in EUR million)	**Carrying amounts after reclassification**	**Value adjustments**			**1/1/2018 IFRS 9**
		Due to expected credit losses (A)	**Other (B)**	**Deferred tax impact**	
Cash and central banks	10,721				10,721
Financial assets at fair value through profit or loss	17,210	28	(225)		17,013
Hedging derivatives	4,977				4,977
Financial assets at fair value through other comprehensive income	11,763	10	(16)		11,757
Financial assets at amortised cost - Debt securities	47,349	(222)	3,146		50,272
Financial assets at amortised cost - Interbank loans and advances	30,676	15			30,690
Financial assets at amortised cost - Customer loans and advances	54,312	8			54,320
Fair value revaluation of portfolio hedges	1,175				1,175
Current tax assets	19				19
Deferred tax assets	29				29
Accruals and other assets	562				562
Non current assets held for sale	2,105	(5)		2	2,102
Tangible fixed assets	4				4
Intangible assets	35				35
TOTAL ASSETS	**180,938**	**(168)**	**2,904**	**2**	**183,676**

(A) Value adjustments due to expected credit losses
The analysis is presented above in the paragraph "Impact on impairment and provisions"

(B) Other
The main impacts are those linked to the release of the premium-discount (unrealised fair value gains and losses) related to previous reclassification to *Loans and advances* under IAS 39 revised (EUR 1,868 million) or to the reclassification of *Financial assets available for sale* to *Financial assets held to maturity* (EUR 616 million). The impact of modification in the accounting classification amounted to EUR 419 million.

LIABILITIES (in EUR million)	31/12/2017 IAS 39	Reclassifications			Value adjustments			1/1/2018 IFRS 9
		Modification in ANC presentation (A)	Other (B)	Carrying amount after reclassifications	Due to expected credit losses (C)	Other (D)	Deferred tax impact (E)	
Financial liabilities at fair value through profit or loss	14,193		719	14,912				14,912
Hedging derivatives	27,858		(719)	27,139				27,139
Interbank borrowings and deposits	31,016	(209)		30,807				30,807
Customer borrowings and deposits	6,404	3,733		10,137				10,137
Debt securities	89,654			89,654				89,654
Fair value revaluation of portfolio hedges	41			41				41
Current tax liabilities	1			1				1
Deferred tax liabilities	0			0			7	7
Accruals and other liabilities	3,941	(3,524)		418				418
Liabilities included in disposal groups held for sale	1,894			1,894				1,894
Provisions	374			374	12			385
Subordinated debt	160			160				160
TOTAL LIABILITIES	**175,536**	**0**	**0**	**175,536**	**12**		**7**	**175,555**
Equity	**5,402**			**5,402**	**(180)**	**2,904**	**(5)**	**8,121**
Equity, Group share	4,992			4,992				7,689
Capital stock and related reserves	2,489			2,489				2,489
Consolidated reserves	7,228		(462)	6,766	(179)	(235)	15	6,366
Gains and losses directly recognised in equity	(4,263)			(4,263)		3,116	(20)	(1,166)
Net result of the period	(462)		462	0				
Minority interests	410			410	(1)	22	1	432
TOTAL LIABILITIES AND EQUITY	**180,938**	**0**	**0**	**180,938**	**(168)**	**2,904**	**2**	**183,676**

TOTAL LIABILITIES

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

Some modifications were brought to the presentation in the face of the balance sheet following the ANC recommandation n°2017-02 dated 2 june 2017.

As at 31/12/2017, cash collaterals were included in item *Accruals and other liabilities* (EUR 3,524 million). As at 01/01/2018, following the format proposed the ANC, they were reclassified in item *Interbank borrowings and deposits* (EUR 3,160 million) and in item *Customer borrowings and deposits* (EUR 364 million).

(B) Other

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

(C) Value adjustments due to expected credit losses

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

EQUITY

(C) Value adjustments due to expected credit losses

The impact amounted to EUR - 180 million in consolidated reserves and minority interests.

(D) Other

Modifications in accounting classification have an impact of EUR - 280 million on *Consolidated reserves*, of EUR + 691 million in *Gains and losses directly recognised in equity* and of EUR + 8 million in *Minority interests*.

In particular, the classification of equity instruments in *Financial assets at fair value through profit or loss* (EUR 149 million) and in *Financial assets at fair value through other comprehensive income* (EUR 39 million) has a positive impact of EUR + 23 million in *Consolidated reserves* and a negative impact of EUR - 23 million in *Gains and losses directly recognised in equity*.

The release of the premium-discount related to previous reclassification to *Loans and advances* under IAS 39 revised and of *Financial assets available for sale* to *Financial assets held to maturity* had an impact of EUR 63 million on *Consolidated reserves*, of EUR 2,408 million on *Gains and losses directly recognized in equity* and of EUR 14 million on *Minority interests*.

(E) Impact on deferred tax

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

FINANCIAL ASSETS RECLASSIFIED AT AMORTISED COST

	Carrying amount as at 31/12/2018	Fair value as at 31/12/2018	Fair value gain or loss 2018
From *Financial assets available for sale* [1]	7,450	6,257	(286)
From *Financial assets at fair value through profit or loss*	578	665	(4)

(1) of which discontinued operations : carrying amount : EUR 313 million, fair value EUR 316 million.

	Interests revenue (expense) 2018
From *Financial assets at fair value through profit or loss*	8

The effective interest rate of *Financial assets at fair value through profit or loss* reclassified at amortised cost is between 2.6% and 2.9%.

2. Notes on the assets

(some amounts may not add up due to roundings off)

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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 counterparty

(in EUR Million)	31/12/2017	31/12/2018
Cash and central banks (note 2.2)	10,721	9,269
Interbank loans and advances (note 2.6)	444	
Financial assets at amortised cost - Interbank loans and advances (note 2.6)		1,254
Non current assets held for sale	712	102
TOTAL	**11,877**	**10,626**

b. Of which, restricted cash:

(in EUR Million)	31/12/2017	31/12/2018
Mandatory reserves(1)	61	128
- of continuing operations		*30*
- of discontinued operations		*98*
TOTAL	**61**	**128**

(1) Minimum required reserve deposits at the European Central Bank (ECB) or at other central banks.

2.2. Cash and central banks

(in EUR Million)	31/12/2017	31/12/2018
Mandatory reserve deposits with central banks	61	30
Other central banks deposits(1)	10,659	9239
TOTAL	**10,721**	**9,269**
of which included in cash and cash equivalents	*10,721*	*9,269*

(1) On 21 July 2017, the European Central Bank announced the end of recourse to Eurosystem funding for wind-down entities as from 31 December 2021 and limited the Group's recourse to the Eurosystem to an amount of EUR 5.2 billion for the transitional period. As at 31 December 2017, the Group no longer had recourse to that type of funding.

The ECB decision also resulted in a reduction of the liquidity buffer, combined with a change of its composition. As of December 31, 2017, the liquidity reserve is EUR 16.4 billion of which EUR 10.7 billion in the form of deposits with central banks. As of December 31, 2018, the liquidity reserve is EUR 16.3 billion of which EUR 9.3 billion in the form of deposits with central banks.

2.3. Financial assets at fair value through profit or loss

(in EUR Million)	31/12/2017	31/12/2018
Loans and securities	680	3,263
Derivatives (see note 4.1.b)	12,509	10,158
TOTAL	13,188	13,421

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

	31/12/2017			31/12/2018			
(in EUR Million)	Held for trading	Designated at fair value through P/L	Total	Held for trading	Non-trading financial assets mandatorily at fair value through P/L	Designated at fair value through P/L	Total
Loans	0	0	0	0	2,894	0	2,894
Bonds	679	0	679	0	252	0	252
Equity instruments	0	1	1	0	117		117
TOTAL	679	1	680	0	3,263	0	3,263

b. Analysis by maturity and interest rate

See notes 7.6 and 7.4.

c. Analysis of the fair value

See note 7.1.

2.4. Financial assets available for sale / Financial assets at fair value through OCI

FINANCIAL ASSETS AVAILABLE FOR SALE

a. Analysis by nature

(in EUR Million)	31/12/2017
Bonds issued by public bodies	6,227
Other bonds and fixed-income instruments	4,415
Equities and other variable-income instruments	228
TOTAL ASSETS BEFORE IMPAIRMENT	10,870
Specific impairment	(40)
TOTAL ASSETS AFTER IMPAIRMENT	10,830

FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

a. Analysis by nature

(in EUR Million)	31/12/2018
Loans	739
Bonds	4,143
Equity instruments designated at FVOCI	39
TOTAL ASSETS BEFORE ALLOWANCES	4,922
Allowances	(6)
TOTAL ASSETS AFTER ALLOWANCES	4,916

b. Derecognition of investments in equity instruments

No significant disposal took place in 2018.

c. Equity instruments were designated as at FVOCI in order to avoid volatility in net income.

The following investments have an accounting value of 1 million or more:

(in EUR Million)	31/12/2018
Ecofin global utilities	5
Istituto per il Credito Sportivo	28

d. Analysis by maturity and interest rate

See notes 7.6 et 7.4.

e. Analysis of fair value

See note 7.1.

f. Analysis of quality

See note 2.12.

g. Reclassification of financial assets

See note 2.13.A.

2.5. Financial assets held to maturity / Financial assets at amortised cost - Debt securities

FINANCIAL ASSETS HELD TO MATURITY

a. Analysis by counterparty

(in EUR Million)	31/12/2017
Public sector	1,750
Performing assets	**1,750**
Impaired assets	**0**
TOTAL ASSETS BEFORE IMPAIRMENT	**1,750**
TOTAL ASSETS AFTER IMPAIRMENT	**1,750**

FINANCIAL ASSETS AT AMORTISED COST - DEBT SECURITIES

a. Analysis by counterparty

(in EUR Million)	31/12/2018
Interbank	1,681
Customers	44,158
TOTAL ASSETS BEFORE ALLOWANCES	**45,840**
Allowances	(338)
TOTAL ASSETS AFTER ALLOWANCES	**45,502**

b. Analysis by maturity and interest rate

See notes 7.6 and 7.4.

c. Analysis of fair value

See note 7.1.

d. Analysis of quality

See note 2.12.

e. Impact analysis on transfer of financial assets from available for sale to held to maturity

See note 2.13.B.

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

INTERBANK LOANS AND ADVANCES

a. Analysis by nature

(in EUR Million)	**31/12/2017**
Nostri accounts	350
Reverse repurchase agreements (*reverse repos*)	2,980
Other interbank loans and advances	931
Debt instruments	1,901
Performing assets	**6,162**
Impaired assets	**0**
TOTAL ASSETS BEFORE IMPAIRMENT	**6,162**
Collective impairment	(18)
TOTAL ASSETS AFTER IMPAIRMENT	**6,144**
of which included in cash and cash equivalents	*444*

FINANCIAL ASSETS AT AMORTISED COST - INTERBANK LOANS AND ADVANCES

a. Analysis by nature

(in EUR Million)	**31/12/2018**
Nostri accounts	499
Cash collateral	20,311
Reverse repurchase agreements (*reverse repos*)	2,575
Other interbank loans and advances	281
TOTAL ASSETS BEFORE ALLOWANCES	**23,667**
Allowances	(2)
TOTAL ASSETS AFTER ALLOWANCES	**23,665**
of which included in cash and cash equivalents	*1,254*

b. Analysis by maturity and interest rate

See notes 7.6 et 7.4.

c. Analysis of fair value

See note 7.1.

d. Analysis of quality

See note 2.12.

e. Reclassification of financial assets (IAS 39 amended)

See note 2.13. A.

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

CUSTOMER LOANS AND ADVANCES

a. Analysis by nature

(in EUR Million)	**31/12/2017**
Loans and advances	57,745
Debt instruments	41,212
Performing assets	**98,956**
Impaired loans and advances	694
Impaired debt instruments	183
Impaired assets	**877**
TOTAL ASSETS BEFORE IMPAIRMENT	**99,833**
Specific impairment	(257)
Collective impairment	(312)
TOTAL ASSETS	**99,264**
of which included in finance leases	*1,242*

FINANCIAL ASSETS AT AMORTISED COST - CUSTOMER LOANS AND ADVANCES

a. Analysis by nature

(in EUR Million)	31/12/2018
Cash collateral [1]	4,850
Loans and advances	30,595
TOTAL ASSETS BEFORE ALLOWANCES	**35,444**
Allowances	(286)
TOTAL ASSETS AFTER ALLOWANCES	**35,158**
of which included in finance leases	*1,116*

(1) Of which EUR 3,006 million related to clearing houses.

b. Analysis by maturity and interest rate

See notes 7.6 and 7.4.

c. Analysis of fair value

See note 7.1.

d. Analysis of quality

See note 2.12.

2.8. Accruals and other assets

(in EUR Million)	31/12/2017	31/12/2018
Other assets	561	389
Cash collateral [1]	29,989	
TOTAL	**30,550**	**389**

(1) As at 31/12/2018, the cash collateral is included in Financial assets at amortised cost - Interbank loans and advances and Financial assets at amortised cost - Customer loans and advances.

Other assets

Analysis by nature (in EUR Million)	31/12/2017
Deferred expense	6
Other accounts receivable	552
Other taxes	3
Performing assets	**561**
Impaired assets	**1**
TOTAL ASSETS BEFORE IMPAIRMENT	**562**
Specific impairment	(1)
TOTAL ASSETS AFTER IMPAIRMENT	**561**

Analysis by nature (in EUR Million)	31/12/2018
Deferred expense	5
Other accounts receivable	380
Other taxes	5
TOTAL	**389**

2.9. Tangible fixed assets

a. Net book value

(in EUR Million)	Land and buildings Own use owner	Office furniture and other equipment Own use owner	Total
Acquisition cost as at 1 January 2017	**19**	**53**	**72**
- Acquisitions	0	1	1
- Disposals	0	(3)	(3)
- Transfers and cancellations	(5)	(10)	(15)
- Translation adjustments	0	(2)	(3)
Acquisition cost as at 31 December 2017 (A)	**14**	**39**	**52**
Accumulated depreciation and impairment as at 1 January 2017	**(13)**	**(45)**	**(57)**
- Depreciation booked	0	(3)	(3)
- Disposals	0	1	1
- Transfers and cancellations	1	8	9
- Translation adjustments	0	2	2
Accumulated depreciation and impairment as at 31 December 2017 (B)	**(12)**	**(37)**	**(48)**
Net book value as at 31 December 2017 (A)+(B)	**2**	**2**	**4**

(in EUR Million)	Land and buildings Own use owner	Office furniture and other equipment Own use owner	Total
Acquisition cost as at 1 January 2018	**14**	**39**	**52**
- Transfer in disposal groups held for sale	(12)	(3)	(15)
- Disposals	(2)	0	(2)
- Other	0	1	1
Acquisition cost as at 31 December 2018 (A)	**0**	**37**	**37**
Accumulated depreciation and impairment as at 1 January 2018	**(12)**	**(37)**	**(48)**
- Transfer in disposal groups held for sale	10	3	12
- 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**	**(35)**	**(35)**
Net book value as at 31 December 2018 (A)+(B)	**0**	**2**	**2**

b. Fair value of investment property
Nil.

c. Capitalised expenditures for the construction of tangible fixed assetss
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)	2017			2018		
	Internally developed software	Other intangible assets [(1)]	Total	Internally developed software	Other intangible assets [(1)]	Total
Acquisition cost as at 1st January	**104**	**118**	**222**	**114**	**110**	**224**
- Transfers in disposal groups held for sale	0	0	0	0	(23)	(23)
- Acquisitions	11	3	14	8	11	19
- Disposals	0	(2)	(2)	0	0	0
- Transfers and cancellations	(1)	(8)	(9)	(3)	(1)	(4)
- Translation adjustments	0	(3)	(3)	0	1	1
Acquisition cost as at 31 December (A)	**114**	**110**	**224**	**119**	**97**	**216**
Accumulated depreciation and impairment as at 1st January	**(81)**	**(110)**	**(190)**	**(87)**	**(102)**	**(189)**
- Transfers in disposal groups held for sale	0	0	0	0	23	23
- Booked	(7)	(4)	(11)	(12)	(4)	(16)
- Disposals	0	2	2			0
- Transfers and cancellations	1	8	9	3	1	4
- Translation adjustments	0	2	2	0	(1)	(1)
Accumulated depreciation and impairment as at 31 December (B)	**(87)**	**(102)**	**(189)**	**(97)**	**(83)**	**(180)**
Net book value as at 31 December (A)+(B)	**27**	**8**	**35**	**22**	**14**	**37**

(1) Other intangible assets include primarily purchased software.

2.11. Leases

a. Group as lessor

Finance leases

Gross investment in finance leases (in EUR Million)	**31/12/17**	**31/12/2018 - continuing operations**
Less than 1 year	136	46
1 year to 5 years	320	147
Over 5 years	784	928
Subtotal	**1,240**	**1,121**
Net investment in finance leases	**1,240**	**1,121**

Additional information (in EUR Million)	**31/12/17**	**31/12/2018 - continuing operations**
Estimated fair value of finance leases	1,236	1,097

Operating leases

These amounts are non-material.

b. Group as lessee

Finance leases

Nil.

Operating leases

Future net minimum lease payments under non-cancellable operating leases (in EUR Million)	31/12/17	31/12/2018 - continuing operations
Less than 1 year	19	18
1 year to 5 years	55	51
TOTAL	**74**	**69**
Future minimum sublease payments expected to be received under non-cancelable subleases at the balance sheet date	1	1

Lease and sublease payments recognized as expenses during the year (in EUR Million)	31/12/17	31/12/2018 - continuing operations
Minimum lease payments	19	16
Sublease payments	(1)	0
TOTAL	**18**	**16**

2.12. Quality of financial assets

(in EUR Million)	31/12/2017
Analysis of performing financial assets	
Interbank loans and advances	6,162
Customer loans and advances	98,957
Financial assets held to maturity	1,750
Financial assets available for sale	10,795
Fixed revenue instruments	*10,642*
Variable revenue instruments	*152*
Other accounts receivable (note 2.8)	552
TOTAL PERFORMING FINANCIAL ASSETS	**118,216**
Collective impairment	(331)
NET TOTAL PERFORMING FINANCIAL ASSETS	**117,885**

(in EUR Million)	31/12/2017 Gross amount	Specific Impairment	Net amount
Analysis of impaired financial assets			
Customer loans and advances	877	(257)	620
Financial assets available for sale	76	(40)	36
Fixed revenue instruments	*0*	*0*	*0*
Variable revenue instruments	*76*	*(40)*	*36*
Other accounts receivable (note 2.8)	1	(1)	0
TOTAL	**954**	**(298)**	**656**
Analysis of performing and impaired financial assets			
Interbank loans and advances	6,162	0	6,162
Customer loans and advances	99,834	(257)	99,577
Financial assets held to maturity	1,750	0	1,750
Financial assets available for sale	10,871	(40)	10,830
Fixed revenue instruments	*10,642*	*0*	*10,642*
Variable revenue instruments	*228*	*(40)*	*188*
Other accounts receivable (note 2.8)	553	(1)	552
TOTAL FINANCIAL ASSETS	**119,170**	**(298)**	**118,871**
Collective impairment			(331)
NET TOTAL	**119,170**	**(298)**	**118,540**

(in EUR Million)	31/12/2018 Gross amount - Stage 1	Gross amount - Stage 2	12-month expected credit losses	Lifetime expected credit losses	Net amount - Stage 1	Net amount - Stage 2
Non credit-impaired financial assets						
Financial assets at amortised cost - Debt securities	33,477	11,908	(3)	(242)	33,474	11,666
Financial assets at amortised cost - Interbank loans and advances	23,467	200	0	(2)	23,467	199
Financial assets at amortised cost - Customer loans and advances	27,715	6,917	(2)	(90)	27,713	6,827
Financial assets at fair value through OCI - Fixed revenue intruments	3,879	999	(1)	(4)	3,878	995
Other accounts receivable	64	1	0	0	64	1
TOTAL	**88,601**	**20,025**	**(5)**	**(337)**	**88,595**	**19,688**

(in EUR Million)	31/12/2018 Gross amount	Specific Impairment	Net amount
Credit-impaired financial assets (stage 3)			
Financial assets at amortised cost - Debt securities	455	(93)	362
Financial assets at amortised cost - Customer loans and advances	743	(187)	556
Financial assets at fair value through OCI - fixed revenue intruments	5	(1)	4
Other accounts receivable	10	(10)	0
TOTAL	**1,213**	**(291)**	**922**

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

(in EUR Million)	Gross amount	12-month expected credit losses	Lifetime expected credit losses	Specific Impairment	Net amount
	31/12/2018				
Financial assets at amortised cost - Debt securities	45,840	(3)	(242)	(93)	45,502
Financial assets at amortised cost - Interbank loans and advances	23,667		(2)		23,665
Financial assets at amortised cost - Customer loans and advances	35,444	(2)	(90)	(194)	35,158
Financial assets at fair value through OCI -fixed revenue intruments	4,883	(1)	(4)	(1)	4,877
Other accounts receivable	75			(10)	65
TOTAL	**109,909**	**(5)**	**(337)**	**(299)**	**109,267**

Financial instruments for which there are no loss allowances recorded correspond to positions that are either guaranteed or senior, or marginally for which the bank has physical collateral.

2.13. Reclassification of financial assets (IAS 39 amended) and transfers of financial assets available for sale to financial assets held to maturity

A. Reclassification of financial assets (IAS 39 amended)

On 1 October 2008, the Dexia Group decided to apply the amendment of IAS 39 and IFRS 7 “Reclassification of Financial Assets” for some assets, and opted to reclassify certain assets from “Financial assets held for trading” to “Financial assets available for sale” or “Loans and advances”, as well as from “Financial assets available for sale” to “Loans and advances”.
On 1 October 2014, the Dexia Group also reclassified bonds from “Financial assets available for sale” to “Loans and advances”.

(in EUR Million)	Carrying amount of assets reclassi-fied, at the reclassifica-tion date	Carrying amount of reclassified assets at 31 December 2017	Fair value of reclassified assets at 31 December 2017	Amount not taken through profit or loss due to reclassi-fication	Amount not taken through AFS Reserve due to reclas-sification	Premium/ Discount amortisati-on through net income	Premium/ Discount amortisati-on through AFS reserve
	31/12/2017						
From «Financial assets held for trading» to «Loans and advances»	3,565	466	452	(14)		2	
From «Financial assets available for sale» to «Loans and advances»	65,013	36,776	33,194		(3,582)		180

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IMPACT OF THE RECLASSIFICATION ON EQUITY AND RESULT

a. Transfer from "Financial assets held for trading" to "Loans and advances"

The difference between the carrying amount at the reclassification date and the reimbursement amount is amortised over the remaining life of the reclassified asset. The impact of this amortisation on net income for the period is disclosed in the column "Premium/discount amortisation through profit or loss".

At closing date, the difference between the carrying amount of reclassified assets and their fair value represents the cumulative changes in fair value from reclassification date until the closing date. It also includes the cumulative amortisation of the premium or discount since reclassification. In 2017, the difference is negative as spreads have increased.

b. Transfer from "Financial assets available for sale" to "Loans and advances"

The Dexia Group's available-for-sale portfolio is very specific as it consists of securities with very long maturities, resulting in significant changes in value following small shifts in spreads. The impact of the transfer on the cost of risk consists in the net amount of accruals and use of collective as well as specific provisions.

In 2017, an income of EUR 40 million was recorded as collective impairment.

When there is objective evidence of impairment for a financial asset initially classified in "Financial assets available for sale" but reclassified in "Loans and advances" in accordance with the amended IAS 39, any difference between the carrying amount and the net present value of expected future cash flows, discounted at the effective interest rate as at the reclassification date is recognised as an impairment loss. Consequently, any unamortised outstanding amount recognised in the available-for-sale reserve is also recognised as an impairment loss. This category mainly includes non-economic losses that would have been reversed in the future through net interest income.

The difference between the carrying amount of a reclassified asset and its fair value reflects the evolution of credit and liquidity spreads on the markets.

c. Impact of reclassifications on the interest margin

For assets transferred from "Financial assets available for sale" to "Loans and advances" the amortisation of the premium/discount on the asset is offset by the amortisation of the fair value reserve frozen at the time of reclassification, without any resulting impact on net interest income.

The impact on the interest margin due to reclassification of "Financial assets held for trading" to "Loans and advances" amounts to EUR 2 million in 2017.

B. Transfers of financial assets available for sale to financial assets held to maturity

Begin December 2016, the Group transferred certain sovereign bonds from the category "Financial assets available for sale" to the category "Financial assets held to maturity", for which it had a clear change of intent and ability to hold them until their maturity. The reclassifications were made at the fair value of the assets at the reclasification date. The effective interest rate at reclassification date ranged from 1.4 % to 5.0 %.

The reimbursement amount of those assets reclassified amounted to EUR 1.5 billion. As of 31 December 2017, if those financial assets had not been reclassified, a positive amount of EUR 174 million would have been recognised for those assets, in shareholders'equity, in "Gains and losses directly recognised in equity".

An EUR 652 million gross amount of available for sale reserve was frozen and will be amortized on the residual maturity of the assets, without any impact in profit and loss. Indeed, the amortisation of the premium/discount on the asset is offset by the symetrical amortisation of the fair value reserve frozen at the time of reclassification. As at 31 December 2017, this amortization amounted to EUR 34 million.

	31/12/2017				
(in EUR Million)	Carrying amount of assets transferred, at the reclassification date	Carrying amount of transferred assets at 31 December 2017	Fair value of transferred assets at 31 December 2017	Amount not taken through AFS reserve due to transfer	Amortisation of premium/discount in gains and losses directly recognised in equity
	1,696	1,685	1,859	174	34

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.

(in EUR Million)	31/12/2017 Carrying amount of assets	31/12/2017 Carrying amount of associated liabilities
Loans and advances not derecognised due to following transactions:		
Repurchase agreements	18,286	16,236
TOTAL	**18,286**	**16,236**
Financial assets available for sale not derecognised due to following transactions:		
Repurchase agreements	9,792	9,355
TOTAL	**9,792**	**9,355**
TOTAL	**28,078**	**25,591**

Continuing operations (in EUR Million)	31/12/2018 Carrying amount of assets	31/12/2018 Carrying amount of associated liabilities
Financial assets at amortised cost -Debt securities not derecognised due to following transactions:		
Repurchase agreements	16,346	14,249
TOTAL	**16,346**	**14,249**
Financial assets at fair value through OCI not derecognised due to following transactions:		
Repurchase agreements	643	574
TOTAL	**643**	**574**
Non-trading financial assets mandatorily at fair value through P/L not derecognised due to following transactions:		
Repurchase agreements	65	48
TOTAL	**65**	**48**
TOTAL	**17,054**	**14,871**

3. Notes on the liabilities

(some amounts may not add up due to roundings off)

3.1.	Financial liabilities at fair value through profit or loss	118	3.5.	Accruals and other liabilities	120
3.2.	Interbank borrowings and deposits	119	3.6.	Provisions	120
3.3.	Customer borrowings and deposits	119	3.7.	Subordinated debt	122
3.4.	Debt securities	119	3.8.	Information on Equity	122

3.1. Financial liabilities at fair value through profit or loss

(in EUR million)	31/12/2017	31/12/2018
Liabilities designated at fair value	1,410	1,066
Derivatives (see note 4.1)	12,782	10,807
TOTAL	14,193	11,872

a. Analysis by nature of liabilities held for trading

Nil.

b. Analysis by nature of liabilities designated at fair value

(in EUR million)	31/12/2017	31/12/2018
Non subordinated liabillities	1,410	1,066
TOTAL	1,410	1,066

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

	Carrying amount	Amount of change in the fair value attributable to changes in the credit risk		Difference between carrying amount and amount contractually required to be paid at maturity (1)
(in EUR million)		For the period	Cumulative	
As at 31 December 2017	1,410	92	(81)	321
As at 31 December 2018	1,066	28	(53)	212

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

c. Analysis by maturity and interest rate

See note 7.4 and 7.6.

d. Analysis of fair value

See note 7.1.

The "Fair Value Option" (FVO), for financial liabilities is mainly used in the following situation:
By Dexia Financial Products Inc and FSA Global Funding Ltd for liabilities where the hedge accounting requirements are not met or there is a risk that they will not be met, the FVO is used as an alternative in order to reduce volatility in profit or loss.

The following types of liabilities are subject to the FVO classification:
a) Fixed rate liabilities that are highly customised funding contracts tailored to the specific needs of the investor (GIC activities).
Regarding 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's guarantee. In this case, the own credit spread (DVA) is the lower of Dexia's DVA spread and the Assured Guaranty's spread.
b) FSA Global Funding fixed rate liabilities and the unsecured FP GICs.
The own credit spread is Dexia's DVA spread.
As at 31 December 2018, the cumulative change in fair value attributable to own credit risk of financial liabilities designated at fair value amounted to EUR - 53 million. This amount is booked in *Gains and losses directly recognised in equity*.

3.2. Interbank borrowings and deposits

a. Analysis by nature

(in EUR million)	31/12/2017	31/12/2018
Demand deposits	88	0
Repurchase agreements	24,568	13,418
Cash collateral (1)	0	2,333
Other debts	6,360	4,340
TOTAL	**31,016**	**20,091**

(1) In 2017, cash collateral was included in the item Accruals and other liabilities.

b. Analysis by maturity and interest rate

See note 7.4 and 7.6.

c. Analysis of fair value

See note 7.1.

3.3. Customer borrowings and deposits

a. Analysis by nature

(in EUR million)	31/12/2017	31/12/2018
Demand deposits	795	0
Term deposits	1,186	296
Total customer deposits	**1,981**	**296**
Repurchase agreements (1)	3,781	4,323
Cash collateral (2)	0	85
Other borrowings	642	168
Total customer borrowings	**4,423**	**4,577**
TOTAL	**6,404**	**4,873**

(1) In 2018, EUR 3,753 million related to EUREX CLEARING AG.
(2) In 2017, cash collateral was included in the item Accruals and other liabilities.

b. Analysis by maturity and interest rate

See note 7.4 and 7.6.

c. Analysis of fair value

See note 7.1.

3.4. Debt securities

a. Analysis by nature

(in EUR million)	31/12/2017	31/12/2018
Certificates of deposit	10,085	3,144
Non-convertible bonds (1)	79,569	64,815
TOTAL (2)	**89,654**	**67,960**

(1) As at 31 December 2017, the amount of covered bonds was EUR 15.4 billion. As at 31 December 2018, following the application of IFRS 5, the covered bonds are included in Liabilities included in disposal groups held for sale.
(2) As at 31 December 2018, the total amount issued with the State guarantee was EUR 65.5 billion (EUR 67.6 billion in 2017).

b. Analysis by maturity and interest rate

See note 7.4 and 7.6.

c. Analysis of fair value

See note 7.1.

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3.5. Accruals and other liabilities

(in EUR million)	31/12/2017	31/12/2018
Other liabilities	417	411
Cash collateral [1]	3,524	0
TOTAL	**3,941**	**411**

(1) As at 31 december 2018, cash collateral is included in Interbank borrowings and deposits *and in* Customer borrowings and deposits.

Other liabilities

(in EUR million)	31/12/2017	31/12/2018
Accrued costs	42	21
Deferred income	10	9
Grants	58	36
Salaries and social charges (payable)	8	8
Liabilities related to dividends	4	3
Other taxes	19	16
Other accounts payable and other liabilities	277	319
TOTAL	**417**	**411**

3.6. Provisions

a. Analysis by nature

(in EUR million)	31/12/2017
Litigation claims [1]	328
Restructuring	34
Defined benefit plans	4
Other long-term employee benefits	4
Provision for off-balance sheet credit commitments	1
Onerous contracts	1
TOTAL	**374**

(1) This item includes a provision related to desensitisation of structured credits in France.

(in EUR million)	31/12/2018
Litigation claims [1]	321
Restructuring	27
Defined benefit plans	1
Other long-term employee benefits	3
Commitments and guarantees given [2]	9
- Commitments and guarantees given - stage 1	*0*
- Commitments and guarantees given - stage 2	*2*
- Commitments and guarantees given - stage 3	*6*
Onerous contracts	4
Other provisions	3
TOTAL PROVISIONS	**368**

(1) This item includes a provision related to desensitisation of structured credits in France.
(2) The evolution of this item is presented in the note 7.2.e.

b. Movements

(in EUR million)	Litigation claims [1]	Restructuring	Pensions and other employee benefits	Provision for off-balance sheet credit commitments	Onerous contracts	Total
AS AT 01/01/2017	**385**	**24**	**15**	**4**	**2**	**432**
Additions	28	19	3	0	0	50
Unused amounts reversed	(85)	(4)	(3)	(3)	0	(95)
Amounts utilized during the year	0	(4)	(1)	0	(1)	(6)
Actuarial gains and losses	0	0	(3)	0	0	(3)
Transfers in liabilities included in disposal groups held for sale	0	0	(1)	0	0	(1)
Other transfers	0	0	(2)	0	0	(2)
AS AT 31/12/2017	**328**	**34**	**8**	**1**	**1**	**374**

(1) We refer to the section Litigation in the chapter Risk Management of the Management Report.

(in EUR million)	Litigation claims [1]	Restructuring	Pensions and other employee benefits	Onerous contracts	Other provisions	Total
AS AT 01/01/218	**328**	**34**	**8**	**1**	**0**	**372**
Additions	35	6	2	3	4	51
Unused amounts reversed	(29)	(10)	(6)	0	0	(46)
Amounts utilized during the year	(1)	(4)	(1)	(1)	0	(6)
Actuarial gains and losses	0	0	(1)	0	0	(1)
Transfers in non current assets held for sale	(7)	0	0	0	0	(8)
Other transfers	(6)	0	2	0	(1)	(4)
AS AT 31/12/8	**321**	**27**	**4**	**4**	**3**	**359**

(1) We refer to the section Litigation in the chapter Risk Management of the Management Report.

c. Provisions for pension and other long term benefits

After the sale of most of its operating subsidiaries, Dexia holds only several subsidiaries with significant staff number in a few countries. Except commitments for legal pension and for defined contribution plans subject to a minimum guaranteed return in Belgium, commitments for defined benefit plans are limited.

They mainly concern retirement allowances in France, pension plans in Italy and pension plans for Belgian staff of the holding with less than 60 people.

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 5% of consolidated equity. The amount of actuarial liabilities less the fair value of assets for retirement and other employee benefits is EUR 4 million as at 31 December 2018 and 8 million as at 31 December 2017.

d. Defined contribution plan

The Belgian defined contribution plans are subject by the law to a minimum guaranteed return. As a consequence of the Belgian law of 18 December 2015, minimum returns are guaranteed by the employer as follows :

(i) for the contributions paid as from 1 January 2016, a new variable minimum return based on OLO rates, with a minimum of 1.75% and a maximum of 3.75%. In view of the low rates of the OLO in the last years, the return has been initially set to 1.75%; (ii) for the contributions paid until end December 2015, the previously applicable legal returns (3.25% and 3.75% respectively on the employer and employee contributions) continue to apply until retirement date of the participants. In view of the minimum returns guarantees, those plans qualify as Defined Benefit plans.

3.7. Subordinated debt

a. Analysis by nature

Convertible subordinated debt
Nil.

Non-convertible subordinated debts

(in EUR million)	31/12/2017	31/12/2018
Perpetual subordinated notes	0	0
Other subordinated notes	160	126
TOTAL	**160**	**126**

Detailed list is available on request from Investor Relations Department- E-mail : investor.relations@dexia.com
Tel. Brussels : + 32 2 213 57 66 - Tel. Paris : + 33 1 58 58 58 53.

b. Reconciliation of liabilities arising from financing activities

(in EUR million) 01/01/2017	Cash flows	Non-cash changes: Changes arising from obtaining or losing control of subsidiaries	Non-cash changes: Translation adjustment	Non-cash changes: Fair value changes	Non-cash changes: Other changes [1]	31/12/2017
482	(282)		(4)	(1)	(35)	160

(1) *Of which EUR 38 million have been transferred in* Liabilities included in disposal groups held for sale.

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

c. Analysis by maturity and interest rate

See notes 7.4 and 7.6.

d. Analysis of fair value

See note 7.1.

3.8 Information on Equity

a. Capital stock

The subscribed and fully paid up share capital of Dexia SA amounts to EUR 500,000,000 represented by 420,134,302 shares without indication of their nominal value.
The extraordinary shareholders' meeting of 7 December 2017 approved the proposal to convert the preference shares subscribed in 2012 by the Belgian and French States for an amount of EUR 5.5 billion. As part of this conversion, all the preference shares issued on 31 December 2012 and held by the Belgian and French States are convertsted into ordinary shares, at a conversion rate of 14.446 ordinary shares against one preference share. Simultaneously, profit shares bearing Contingent Liquidation Rights (CLR) are granted to the Belgian and French States. These CLR do not represent the capital of Dexia, but grant the States the right to benefit from a preferential distribution, on the liquidation of Dexia, after settlement of the debts and charges, in an amount of EUR 440 million per annum to count from 1 January 2018 up to the date of liquidation. This right to a preferential distribution in the event of liquidation may only be exercised once, of the occasion of Dexia's liquidation.

b. Super-subordinated perpetual note

In 2005, Dexia Crédit Local issued EUR 700 million super-subordinated perpetual notes. The residual outstanding amounts to EUR 56 million, booked in minority interests.
Moreover, the residual outstanding of Deeply Subordinated Non-Cumulative Notes issued on October 2006 by Dexia Funding Luxembourg (merged with Dexia) amounts to EUR 40 million booked in equity, Group share.

c. Adjustment on 2018 opening equity

The impact of applying the IFRS9 requirements as of 1st January 2018 is presented in the note 1.6.

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4. Other notes on the balance sheet

(some amounts may not add up due to roundings off)

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4.1. Derivatives

a. Analysis by nature

	31/12/2017		31/12/2018 - continuing operations	
(in EUR million)	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through profit or loss (see notes 2.3 et 3.1)	**12,509**	**12,782**	**10,158**	**10,807**
Derivatives designated as fair value hedges	4,517	24,452	983	19,565
Derivatives designated as cash flow hedges	185	1,406	206	578
Derivatives designated as portfolio hedges	283	2,000	73	1,008
Hedging derivatives	**4,985**	**27,858**	**1,263**	**21,151**
TOTAL DERIVATIVES	**17,494**	**40,640**	**11,421**	**31,958**

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

	31/12/2017				31/12/2018- continuing operations		
	Notional amount		Assets	Liabilities	Notional amount	Assets	Liabilities
(in EUR million)	To receive	To deliver					
Interest rate derivatives	**197,039**	**196,510**	**11,443**	**11,983**	**178,129**	**8,433**	**9,475**
of which: economic hedges					*43,844*	*256*	*825*
OTC options	1,091	372	2	19	75		
OTC other	195,858	195,576	11,441	11,964	177,512	8,433	9,475
Organised market other	90	562			542		
Foreign exchange derivatives	**21,884**	**21,848**	**848**	**676**	**21,065**	**1,493**	**1,208**
of which: economic hedges					*15,978*	*411*	*265*
OTC other	21,884	21,848	848	676	21,065	1,493	1,208
Credit derivatives	**3,372**	**1,237**	**218**	**123**	**3,130**	**232**	**124**
of which: economic hedges					*1,813*	*156*	*66*
Credit default swap	3,372	1,237	218	123	3,130	232	124
TOTAL	**222,295**	**219,595**	**12,509**	**12,782**	**202,324**	**10,158**	**10,807**

c. Detail of derivatives designated as fair value hedges

	31/12/2017				31/12/2018 - continuing operations		
	Notional amount		Assets	Liabilities	Notional amount	Assets	Liabilities
(in EUR million)	To receive	To deliver					
Interest rate derivatives	**97,696**	**97,726**	**4,290**	**23,220**	**73,522**	**917**	**18,807**
OTC options	44	15		4	34		4
OTC other	97,652	97,711	4,290	23,216	73,488	917	18,803
Foreign exchange derivatives	**6,501**	**6,504**	**227**	**1,231**	**6,412**	**66**	**758**
OTC other	6,501	6,504	227	1,231	6,412	66	758
TOTAL	**104,197**	**104,230**	**4,517**	**24,451**	**79,934**	**983**	**19,565**

d. Detail of derivatives designated as cash flow hedges

	31/12/2017				31/12/2018 - continuing operations		
	Notional amount		Assets	Liabilities	Notional amount	Assets	Liabilities
(in EUR million)	To receive	To deliver					
Interest rate derivatives	**3,021**	**3,035**	**31**	**1,016**	**1,099**	**15**	**225**
OTC other	3,021	3,035	31	1,016	1,099	15	225
Foreign exchange derivatives	**890**	**918**	**154**	**389**	**873**	**190**	**353**
OTC other	890	918	154	389	873	190	353
TOTAL	**3,911**	**3,953**	**185**	**1,406**	**1,972**	**206**	**578**

e. Detail of derivatives designated as hedges of a net investment in a foreign entity

Nil.

f. Detail of derivatives designated as portfolio hedges

(in EUR million)	31/12/2017 Notional amount To receive	31/12/2017 Notional amount To deliver	31/12/2017 Assets	31/12/2017 Liabilities	31/12/2018 - continuing operations Notional amount	31/12/2018 - continuing operations Assets	31/12/2018 - continuing operations Liabilities
Portfolio fair value hedges of interest rate risk	13,130	13,145	283	2,000	8,451	73	1,008
TOTAL	**13,130**	**13,145**	**283**	**2,000**	**8,451**	**73**	**1,008**

4.2. Deferred taxes

a. Analysis by nature

(in EUR million)	31/12/2017	31/12/2018 Continuing operations	31/12/2018 Activities held for sale
Deferred tax assets	2,107	1,534	133
Unrecognised deferred tax assets	(2,078)	(1,514)	(133)
Recognised deferred tax assets (1)	**29**	**20**	**0**
Deferred tax liabilities (1)	**0**	**(40)**	**0**
TOTAL	**29**	**(20)**	**0**

(1) Deferred tax assets and liabilities are netted out when they concern the same tax entity.

The effects of movements in deferred tax on net income and on unrealised or deferred gains and losses are analysed in note 5.12 *Income tax* and in the *Consolidated statement of comprehensive income* respectively.

b. Movements

(in EUR million)	2017	2018 Continuing operations
AS AT 1 JANUARY	**4**	**22**
Charge/credit recognised in the income statement : “Income tax”	(1)	(43)
Movements directly recognized in shareholders’ equity	21	
Translation adjustment	4	
AS AT 31 DECEMBER	**29**	**(20)**

c. Deferred taxes

(in EUR million)	31/12/17	31/12/18 Continuing operations
Deferred tax assets	2,107	1,534
Deferred tax liabilities	0	(40)
DEFERRED TAXES	**2,107**	**1,494**

Deferred taxes coming from assets (in EUR million)	2017 Total	2017 Of which, change through profit or loss	2018 Continuing operations Total	2018 Continuing operations Of which, change through profit or loss
Loans (and loan loss provisions)	(2,136)	1,119	(1,044)	72
Securities	(1,408)	845	(1,224)	73
Derivatives	(1,264)	52	326	257
Tangible fixed assets and intangible assets		(2)		
Accruals and other assets			8	(15)
TOTAL	**(4,808)**	**2,014**	**(1,934)**	**387**

Deferred taxes coming from liabilities of the balance	2017		2018 Continuing operations	
(in EUR million)	Total	Of which, change through profit or loss	Total	Of which, change through profit or loss
Derivatives	4,123	(937)	1,582	(332)
Borrowings, deposits and debt securities	1,044	(361)	95	5
Provisions	155	(77)	66	(10)
Pensions	5	(1)	3	(1)
Non-deductible provisions	(9)	3	(9)	
Accruals and other liabilities	(39)	40	4	20
TOTAL	**5,279**	**(1,333)**	**1,741**	**(318)**

Deferred taxes coming from other elements	2017		2018 Continuing operations	
(in EUR million)	Total	Of which, change through profit or loss	Total	Of which, change through profit or loss
Tax losses carried forward	1,636	(726)	1,687	31
TOTAL	**1,636**	**(726)**	**1,687**	**31**

TOTAL DEFERRED TAXES	**2,107**		**1,494**	

d. Expiry date of unrecognised deferred tax assets

(in EUR million)	31/12/2017			
Nature	Between 1 to 5 years	Over 5 years	Unlimited maturity	Total
Temporary difference			(442)	(442)
Tax losses carried forward	(1)	(338)	(1,297)	(1,636)
TOTAL	**(1)**	**(338)**	**(1,739)**	**(2,078)**

(in EUR million)	31/12/2018 Continuing operations		
Nature	Over 5 years	Unlimited maturity	Total
Temporary difference		(98)	(98)
Tax losses carried forward	(151)	(1,265)	(1,416)
TOTAL	**(151)**	**(1,363)**	**(1,514)**

4.3. Offsetting financial assets and financial liabilities

The following table presents the amounts of financial assets and liabilities before and after offsetting.

The column "Gross amounts set off on the balance sheet" discloses the amounts offset in accordance with the IAS 32 criteria described in note "Accounting principles and rules governing the consolidated financial statements". Amounts set off are related to Dexia's derivative instruments and repurchase agreements traded with clearing houses.

The column "Impact of Master Netting agreements and similar agreements" includes the amounts of financial instruments that are subject to an enforceable master netting arrangement or similar agreement but which do not meet the offsetting criteria defined by IAS 32. This is the case of Dexia's transactions that are subject to ISDA Master Netting Agreements and Global Master Repurchase Agreements for which offsetting can only be performed in case of default, insolvency or bankruptcy of one of the counterparties.

The Dexia Group Master Netting Agreement ("DGMNA") dated as of 2 November 2009 had been concluded between Dexia SA/NV, Banque Internationale à Luxembourg S.A. (formerly known as Dexia Banque Internationale à Luxembourg S.A.), Belfius Bank SA/NV (formerly known as Dexia Bank Belgium SA/NV), Dexia Crédit Local S.A. and Dexia Crediop SpA.The DGMNA permits netting or "Set-Off" amounts owed under transactions governed by different agreements, including one or more ISDA Master agreements or other trading agreements ("Principal Agreements") between the parties to the DGMNA. The DGMNA essentially aims at allowing netting in the event of a default on behalf of one of the parties, and therefore permits netting only when the transactions under the Principal Agreements are accelerated, terminated, liquidated or canceled (a so-called "Close Out" situation).

When a party is in default under the DGMNA, each other non defaulting Party may elect to Close Out all of the transactions under each Principal Agreement to which such non defaulting Party is a party.

Banque Internationale à Luxembourg and Belfius Banque SA/NV are no longer part of the DGMNA since 29 January 2014, respectively 16 November 2015.

The columns "Cash collateral" and "Financial instruments received or given as collateral" disclose the amounts related to financial collateral. They mainly include Dexia's guarantee deposits and securities received or given as collateral and disclosed at their fair value. These guarantees can only be exercised in case of default, insolvency or bankruptcy of one of the counterparties.

Dexia includes instruments at their 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)	31/12/2017 Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Related amounts not set off on the balance sheet: Impact of Master Netting Agreements and similar agreements	Cash collateral received	Financial instruments received as collateral	Net amounts
Derivatives	16,933	(347)	16,586	(9,834)	(1,765)	(23)	4,964
Reverse repurchase and similar agreements	2,980	0	2,980	(550)	(181)	(2,248)	0
TOTAL FINANCIAL ASSETS IN SCOPE OF OFFSETTING DISCLOSURES	**19,913**	**(347)**	**19,566**	**(10,384)**	**(1,946)**	**(2,271)**	**4,964**

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

(in EUR million)	31/12/2017 Gross amounts of financial liabilities	Gross amounts set off on the balance sheet	Net amounts of financial liabilities presented on the balance sheet	Related amounts not set off on the balance sheet: Impact of Master Netting Agreements and similar agreements	Cash collateral given	Financial instruments given as collateral	Net amounts
Derivatives	40,847	(347)	40,500	(9,833)	(27,050)	0	3,617
Repurchase and similar agreements	28,010	0	28,010	(550)	(168)	(27,290)	1
TOTAL FINANCIAL LIABILITIES IN SCOPE OF OFFSETTING DISCLOSURES	**68,857**	**(347)**	**68,510**	**(10,383)**	**(27,218)**	**(27,290)**	**3,618**

c. 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: Impact of Master Netting Agreements and similar agreements	Cash collateral received	Financial instruments received as collateral	Net amounts
Derivatives	11,217	(578)	10,639	(5,863)	(2,414)	0	2,362
Reverse repurchase and similar agreements	2,575	0	2,575	(550)	(297)	(1,728)	0
TOTAL FINANCIAL ASSETS IN SCOPE OF OFFSETTING DISCLOSURES	**13,792**	**(578)**	**13,214**	**(6,413)**	**(2,711)**	**(1,728)**	**2,362**

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

(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: Impact of Master Netting Agreements and similar agreements	Cash collateral given	Financial instruments given as collateral	Net amounts
Derivatives	32,482	(578)	31,904	(5,863)	(25,806)	0	234
Repurchase and similar agreements	17,395	0	17,395	(550)	0	(16,843)	1
TOTAL FINANCIAL LIABILITIES IN SCOPE OF OFFSETTING DISCLOSURES	**49,877**	**(578)**	**49,299**	**(6,413)**	**(25,806)**	**(16,843)**	**235**

4.4. Related-party transactions

a. Related-party transactions

Since 31 December 2012, as a result of the capital increase subscribed by the Belgian and French States, these shareholders have become the only two shareholders having a significant influence on Dexia.

Group transactions with these shareholders are described in 4.4 C. below. Pursuant to IAS 24 § 25, the detail of loans, borrowings or commitments with the State Shareholders are not subject to a separate disclosure.

As a result of the ongoing restructuring plan of the group, Dexia does not have any transactions with related parties anymore.

b. Compensation of key management personnel (*)

(in EUR million)	2017	2018
Short-term benefits (1)	4	4

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

Details per person are reported in the section Remuneration report of in the chapter Declaration of coporate governance of the Management Report.

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); and
(iii) 3.0% for the Luxembourg State (corresponding to a maximum amount of EUR 2.55 billion).

Pursuant to the Guarantee Issuance Agreement, the following guarantee fee is due to the States:
(i) an upfront commission equal to 0.50% of the EUR 85 billion limit, less the upfront commission already paid in connection with the 2011 Temporary Guarantee i.e. a balance of EUR 150 million.
(ii) a monthly fee, calculated at a rate per annum of 0.05% on the amount outstanding under the guaranteed obligations, both on the pre-existing guaranteed amounts outstanding under the 2011 Temporary Guarantee and the new guaranteed amounts outstanding under guarantees issued in accordance with the Guarantees Issuance Agreement (it being understood that such monthly fee shall, with respect to the portion of the outstanding amount of the guaranteed obligations that would be held by BDF Gestion SA or by the Banque de France, the National Bank of Belgium, be calculated in accordance with the 2011 Temporary Guarantee Agreement (as long as the ECB accepts the all-in fee principle).

The outstanding amount of the guaranteed debt pursuant to the 2013 guarantee agreement is disclosed on a daily basis on the website of the National Bank of Belgium (http://www.nbb.be/DOC/DQ/warandia/index.htm).

As at 31 December 2018, the total outstanding amount of obligations guaranteed by the States pursuant to the 2013 Guarantee Agreement was EUR 65.5 billion. In 2018, Dexia paid a total monthly remuneration of EUR 33 million to the States for these guarantees.

Guarantee for the financial products portfolio

Dexia entered into an agreement for the sale of the insurance activities of Financial Security Assurance (FSA) to Assured Guaranty Ltd (Assured) on 14 November 2008. The sale was completed on 1 July 2009. The Financial Products activity of FSA, managed by FSA Asset Management (FSAM), was carved out of the transaction and remains under Dexia's ownership.

In that context, the Belgian and French States agreed to provide a guarantee on the Financial Products assets portfolio. This guarantee was approved by the European Commission on 13 March 2009. The terms of this guarantee are set out in two agreements, the First Demand Guarantee Agreement relating to the "financial products" portfolio of FSA Asset Management LLC and the Guarantee Reimbursement Agreement, entered into by the Belgian and French States and Dexia. The main relevant terms of these agreements have been described in the 2011 Annual Report page 165.
Pursuant to these agreements, the Belgian and French States each agreed to guarantee, severally and not jointly, the obligations of Dexia SA pursuant to a put agreement which gave FSAM the right to "put" to Dexia and/or DCL certain assets (the Put Portfolio Assets) included in the FSAM portfolio as at 30 September 2008 upon the occurrence of certain trigger events up to an aggregate amount equal to USD 16.98 billion and up to 62.3711% for the Belgian State and 37.6289% for the French State.
With the consent of the Belgian and French States, FSAM sold to DCL during 2011 all the remaining Put Portfolio Assets. DCL subsequently sold substantially all of the Put Portfolio Assets to third parties. As at 31 December 2011, there were no longer any Put Portfolio Assets held by FSAM that can be put to Dexia SA and DCL and (if those Dexia entities did not pay the required amount to FSAM) require the States to make a payment to FSAM. Dexia also no longer owes the States any guarantee fee with respect thereto. The guarantee by the Belgian and French States on the Put Portfolio Assets, however, technically remains outstanding. The States are thus still entitled to recover from Dexia any amounts paid pursuant to their guarantee according to the Guarantee Reimbursement Agreement.

For a more detailed description of the guarantee for the Financial Products portfolio, see the Special Board Report of 12 May 2009, as last updated by the Special Board Report of 18 March 2011, both available on the website of Dexia (*www.dexia.com*).

4.5. Acquisitions and disposals of consolidated companies

a. Acquisitions
Nil.

b. Disposals
On March 17, 2018, Dexia reached an agreement with qualified investors concerning an off-market transaction about the sale of all its shares in Dexia Israel Bank (Dexia Israel), representing 58.89 % of the capital.
The assets and liabilities disposed were as follows:

(in EUR million)	2018
Cash and cash equivalent	712
Financial assets at fair value through other comprehensive income	140
Financial assets at amortised cost - Customer loans and advances	1,093
Financial assets at amortised cost - Debt securities	136
Current tax assets	12
Deferred tax assets	2
Tangible fixed assets	6
Intercompany accounts - net position	(36)
Customer borrowings and deposits	(1,262)
Debt securities	(518)
Accruals and other liabilities	(76)
Provisions	(1)
Subordinated debt	(38)
NET ASSETS	**171**
Sale price	81
Less: cost of the transaction	(1)
Less: cash and cash equivalents of the subsidiary sold	(712)
Net cash inflow on sale	(632)

4.6 Information on disposals groups held for sale and discontinued operations

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

In 2017, pursuant to IFRS5, Dexia Israel was classified as a disposal group held for sale.
On 14 December 2018, Dexia and Helaba have signed a sale and purchase agreement allowing Helaba to buy 100% of the shares in Dexia Kommunalbank Deutschland (DKD).
Dexia Kommunalbank Deutschland was classified as disposal group held for sale and qualified as discontinued operations.

	2017
(in EUR million)	**Dexia Israel**
Cash and cash equivalents	712
Financial assets available for sale	140
Customers loans and advances	1,098
Financial assets held to maturity	136
Current tax assets	12
Tangible fixed assets	6
Intercompany accounts : net position	(36)
Customer borrowings and deposits	(1,262)
Debt securities	(518)
Other liabilities	(76)
Provisions	(1)
Subordinated liabilities	(38)
NET ASSETS	**174**

	2018
(in EUR million)	**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	14,723
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	**209**

b. Income Statement

	31/12/2017		31/12/2018
(in EUR million)	BIL	Dexia Kommunalbank Deutschland	Dexia Kommunalbank Deutschland
Net banking income		**59**	**49**
Operating expenses		(29)	(28)
Cost of credit risk and others			1
Net result before tax		**30**	**23**
Income tax			
Net result		**30**	**23**
Result on disposal	2		
Result from discontinued operations, net of tax	**2**	**30**	**23**
Minority interests			
Group share	**2**	**30**	**23**
Earning per share			
- basic	0.08	1.01	0.05
- diluted	0.08	1.01	0.05

c. Net cash flow

(in EUR million)	31/12/2017	31/12/2018
Cash flow from operating activities	(174)	71
Cash flow from financing activities	(30)	(14)
TOTAL	**(203)**	**57**

4.7. Share-based payments

Dexia stock option plans (number of options)	2017	2018
Outstanding at the beginning of the period	21,968,453	11,085,308
Expired during the period	(10,883,145)	(11,085,308)
Outstanding at the end of the period	**11,085,308**	**0**
Exercisable at the end of the period	**11,085,308**	**0**

	2017		
Range of exercise prices (EUR)	**Number of outstanding options**	**Weighted-average exercise price (EUR)**	**Weighted-average remaining contractual life (years)**
9,12 - 10,27	7,553,684	9.12	0.50
10,74 - 12,35	3,531,624	11.44	0.50
TOTAL	**11,085,308**		

Since 2008 no option has been exerciced as they are out of the money.
All stock option plans expired in 2018.
Following the reverse stock split, the general conditions accompanying the issue of warrants were amended by notarised deed in order to place the beneficiaries of warrants in a situation substantially equivalent to that in which they would have been if the aforementioned operation had not occured. The number of warrants necessary to subscribe to 1(one) new share is henceforth one thousand (1,000). The exercice price per warrant remains unchanged.

4.8. Capital stock

	2017		2018
	Class A	Class B[(1)]	Class A
Number of shares authorized	420,134,302		420,134,302
Number of shares issued and fully paid	420,134,302		420,134,302
Number of shares issued and not fully paid			
Value per share	**no nominal value**	**no nominal value**	**no nominal value**
Outstanding as at 1 Jan.	1,948,984	28,947,368	420,134,302
Number of shares issued	418,185,318		
Number of shares cancelled		28,947,368	
Outstanding as at 31 Dec.	420,134,302	0	420,134,302
Number of treasury shares	112		112
Number of shares reserved for issue under stock options and contracts for the sale of shares	112		112

(1) The class B shares have been converted into ordinary shares (Class A shares) at a conversion rate of 14,446 ordinary share (Class A) against one perference share (Class B). See also press release of 07/12/2017 available on http://www.dexia.com/EN/Journalist/press_releases/Pages/20171207-.aspx

See note 4.4.c Transactions with the Belgian, French and Luxembourg States.

See note 4.7 Share-based payments.

The share capital of Dexia SA amounts to EUR 500,000,000 as at 31 December 2018.
Since the extraordinary shareholders' meeting of 7 December 2017, it is represented by 420,134,302 shares without indication of their nominal value, each representing 1/420,134,302 of the share capital.
Among these 420,134,302 shares:
– 1,948,984 shares are identified by an ISIN code and listed on Euronext Brussels. Those shares are dematerialised or registered. As at 31 December 2018, they include 185,793 of registered share and 1,763,191 dematerialised shares. Their holders may, at any time and at their cost, request their conversion into registered or dematerialised shares as the case may be.
– 418,185,318 other shares have no ISIN code and are exclusively in registered form. Their holders may not request the conversion of these shares into dematerialised shares. This shares are held by the Belgian and French States.

Conversion of the preference shares

On 7 December 2017, an extraordinary shareholders' meeting approved the proposal to convert the preference shares (Class B category) subscribed in 2012 by the Belgian and French States and to issue profit shares.
As part of this conversion, all the preference shares issued on 31 December 2012 and held by the Belgian and French States are converted into ordinary shares, at a conversion rate of 14.446 ordinary shares (i.e. currently category A shares) against one preference share (currently category B shares).
Furthermore, profit shares bearing Contingent Liquidation Rights (CLR) are granted to the Belgian and French States. These CLR do not represent the capital of Dexia, but grant the States the right to benefit from a preferential distribution, on the liquidation of Dexia, after settlement of the debts and charges, in an amount of EUR 440 million per annum to count from 1 January 2018 up to the date of liquidation. This right to a preferential distribution in the event of liquidation may only be exercised once, of the occasion of Dexia's liquidation.
The conversion plan approved by the extraordinary shareholders' meeting today falls within the framework of the Dexia orderly resolution plan approved by the European Commission on 28 December 2012. It is implemented with a view to meeting the requirements of banking regulations. In particular, the conversion plan has the following two objectives:
– on the one hand, to ensure the observance by the Company of the capital ratios imposed by the European Central Bank (ECB) in its decision dated 8 December 2016;
– and on the other hand, to ensure the ongoing observance of the "burden sharing" requirements imposed by the European Commission in its decision dated 28 December 2012 by virtue of the regulations on State aid which, to recall, aim to guarantee that any improvement in Dexia's financial situation will primarily and principally benefit the States.
The plan was approved by the European Commission on 19 September 2017. On 27 November 2017, the ECB gave its consent to the ordinary shares emanating from the conversion to be effectively treated as Common Equity Tier 1.

4.9. Exchange rates

The primary exchange rates are presented in the following schedule:

		31/12/2017		31/12/2018	
		Closing rate(1)	Average rate(2)	Closing rate(1)	Average rate(2)
Australian dollar	AUD	1.5364	1.4812	1.6231	1.5827
Canadian dollar	CAD	1.5064	1.4754	1.5613	1.5315
Swiss Franc	CHF	1.1720	1.1166	1.1282	1.1507
Czech Koruna	CZK	25.5255	26.2852	25.7675	25.6815
Danish Krone	DKK	7.4456	7.4388	7.4678	7.4534
British Pound Sterling	GBP	0.8878	0.8760	0.8940	0.8855
Hong-Kong dollar	HKD	9.3774	8.8780	8.9498	9.2392
Hungarian forint	HUF	310.1400	309.2842	320.9350	319.9317
Shekel	ILS	4.1613	4.0640	4.2812	4.2496
Japenese Yen	JPY	135.0350	127.2879	125.6600	129.9363
Won	KRW	1281.8400	1276.8300	1274.0500	1294.9375
Mexican Peso	MXN	23.5333	21.4682	22.4678	22.6531
Norwegian Krone	NOK	9.8219	9.3778	9.9373	9.6258
New Zealand dollar	NZD	1.6881	1.5993	1.7075	1.7079
Swedish Krona	SEK	9.8271	9.6457	10.2205	10.2998
Singapore dollar	SGD	1.6035	1.5629	1.5582	1.5894
New Turkish Lira	TRY	4.5474	4.1484	6.0403	5.7049
US Dollar	USD	1.1998	1.1388	1.1430	1.1787

(1) Rate observed on Reuters at 4:45 pm on the last business day of the month of December.
(2) Average of the closing rates used by the Dexia group.

4.10. Management of capital

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

5. Notes on the statement of income

(some amounts may not add up due to roundings off)

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5.11.	Net gains (losses) on other assets	139
5.12.	Income tax	139
5.13.	Earnings per share	139

5.1. Interest income - Interest expense

(in EUR million)	2017	2018
Interest income	**8,203**	**7,827**
a) Interest income on assets not measured at fair value through P/L	**2,607**	**2,075**
Cash and central banks	54	23
Interbank loans and advances	108	
Financial assets at amortised cost - Interbank loans and advances		116
Customer loans and advances	2,031	
Financial assets at amortised cost - Customer loans and advances		728
Financial assets at amortised cost - Debt securities		1,018
Financial assets available for sale	273	
Financial assets at fair value through OCI		182
Financial asssets held to maturity	101	
Impaired assets (2017)	3	
Other	36	7
b) Interest income on assets measured at fair value through P/L	**4,987**	**5,382**
Loans and securities held for trading	16	
Financial assets mandatorily at fair value through P/L		141
Derivatives held for trading	3,137	3,451
Hedging derivatives	1,834	1,790
c) Interests received on financial liabilities	**609**	**370**
Interests received on financial liabilities[2]	609	370
Interest expense	**(8,059)**	**(7,778)**
a) Interest expense on liabilities not measured at fair value	**(1,267)**	**(1,409)**
Interbank borrowings and deposits	(397)	(469)
Customer borrowings and deposits	(33)	(26)
Debt securities	(790)	(875)
Subordinated debt	(3)	(1)
Amounts covered by sovereign guarantees[1]	(38)	(33)
Other	(6)	(4)
b) Interest expense on liabilities measured at fair value	**(6,381)**	**(6,002)**
Liabilities designated at fair value through P/L	(63)	(51)
Derivatives held for trading	(3,292)	(3,351)
Hedging derivatives	(3,026)	(2,601)
c) Interests paid on financial assets	**(411)**	**(366)**
Interests paid on financial assets[2]	(411)	(366)
Net interest income	**144**	**49**

(1) This item includes fees paid to the States for the guarantees they granted to Dexia's debt. See also note 4.4.c Related-party transactions - Transactions with the Belgian, French and Luxembourg States.

(2) In the current environment of very low or negative rates, Dexia decided to present separately positive interests on financial liabilities and negative interests on financial assets.

5.2. Commissions

(in EUR million)	2017 Income	2017 Expense	2017 Net	2018 Income	2018 Expense	2018 Net
Lending activity	8	0	8	7	(1)	6
Purchase and sale of securities	0	(3)	(2)	0	(1)	(1)
Payment services	1	(4)	(3)	0	(3)	(3)
Services on securities other than custodial services	0	(1)	(1)	0	(1)	(1)
Custodial services	3	(1)	2	3	0	2
Intermediation on bond lending and reverse repo	0	(5)	(5)	1	(7)	(6)
Other	2	(1)	1	0	(1)	0
TOTAL	**14**	**(16)**	**(2)**	**11**	**(15)**	**(4)**

Fees and commissions related to financial assets and financial liabilities which are not at fair value through profit or loss are below materiality.

5.3. Net gains (losses) on financial instruments at fair value through profit or loss

(in EUR million)	2017	2018
Dividend income on non trading equity instruments assets mandatorily at FVTPL		3
Net trading income	(126)	55
Net result of hedge accounting	(143)	(87)
Net result of financial liabilities designated at fair value through profit or loss(1)	35	33
Net result on non-trading financial assets mandatorily at fair value through profit or loss(2)		(37)
Funding costs associated with non-collateralised derivatives (FVA)(3)(4)	40	(73)
Change in fair value of derivatives attributable to counterparty risk (credit value adjustment)(3)	116	(35)
Change in fair value of derivatives attributable to own credit risk (debit value adjustment)(3)	(30)	5
Net result of foreign exchange transactions	0	(7)
TOTAL	**(108)**	**(144)**
(1) among which derivatives included in a fair value option strategy	(25)	(53)
(2) among which derivatives included in an economic hedge strategy		106

(3) FVA, CVA et DVA are booked in the result of trading activities
(4) In accordance with the provisions of the IFRS 13 accounting standard and in line with market practice, the Dexia Group developed a methodology for the calculation, from June 2015, of a Funding Valuation Adjustment (FVA) aimed measuring the funding costs associated with non-collateralised derivatives.

All interests received and paid on assets, liabilities and derivatives are recorded in the net interest income.
Thus, net gains (losses) on trading transactions and net gains (losses) on hedging transactions only include the change in the clean value of derivatives, the revaluation of assets and liabilities qualified as hedges and the revaluation of the portfolio held for trading.

Analysis of net result of hedge accounting

(in EUR million)	2017	2018
Fair value hedges	**(89)**	**(92)**
Fair value changes of the hedged item attributable to the hedged risk	(1,897)	(1,361)
Fair value changes of the hedging derivatives	1,808	1,269
Cash flow hedges(1)	**(55)**	**5**
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	(55)	5
Portfolio hedge	**1**	**0**
Fair value changes of the hedged item	(389)	(256)
Fair value changes of the hedging derivatives	390	256
TOTAL	**(143)**	**(87)**
Discontinuation of cash flow hedge accounting (cash flows still expected to occur) - amounts recorded in interest margin	(1)	3

(1) In 2017, the impact generated by the breaking of hedging relationships following the disposal of positions related to the Commonwealth of Puerto Rico (EUR -54 million).

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

5.4. Net gains (losses) on financial assets available for sale / Net gains (losses) on financial assets measured at FVOCI

(in EUR million)	2017
Dividends on securities available for sale	2
Net gain (loss) on disposals of financial assets available for sale(1)(2)	(91)
Impairment of variable-income securities available for sale	(1)
Net gain (loss) on disposals of loans and advances(3)	(89)
Net gain (loss) on redemption of debt securities	(8)
TOTAL	**(187)**

(1) Except for gains and losses on impaired fixed-income securities, which are included in cost of risk.
(2) As part of a disposal program, EUR 1.3 billion of securities were sold with a negative result of EUR - 97.5 million.
The disposal of these assets has implied the unwinding of the derivatives designated as portfolio hedges which generated a recognition of losses for EUR - 91 million.
(3) As part of a disposal program, EUR 604 million of loans from the French public sector were sold with a negative result of EUR - 25 million. The disposal of these assets has implied the unwinding of the derivatives designated as portfolio hedge which generated a recognition of losses for EUR - 67 million.
It also includes a loss of EUR -23 million on SPV Sumitomo loans which went out from the group's balance sheet due to the deconsolidation of the SPV..

(in EUR million)	2018
Dividend income on equity instruments designated at FVOCI - investments derecognised during the reporting period	2
Net gain (loss) on disposals of loans measured at FVOCI(1)	12
Net gain (loss) on disposals of bonds measured at FVOCI(2)	(105)
TOTAL	**(91)**

(1) As part of a disposal program, EUR 616 million of loans from the French public sector were sold with a positive result of EUR 13 million.
(2) Mainly student loans and Spanish cedulas.

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

(in EUR million)	2018
Net gain (loss) on disposals of loans measured at AC(1)(2)	(5)
Net gain (loss) on disposals of bonds measured at AC(1)(3)	(5)
Net gain (loss) on redemption of borrowings and deposits	(6)
TOTAL	**(16)**

(1) Except for gains and losses on impaired securities, which are included in cost of risk.
(2) This item mainly includes the loss on disposal of projects in Spain following the worsening of their financial position.
The item also includes a negative result of EUR -2.1 million on anticipated reimbursement of assets in GBP.
(3) The loss is mainly related to the disposal of bonds on US communities as part of the decrease in concentration on certain counterparties.

5.6. Other income

(in EUR million)	2017	2018
Litigations(1)	71	28
Other income	6	1
TOTAL	**77**	**28**

(1) Structured loans are regularly analysed based on the progress of cases and on their environment (court decisions, parameters for establishment of support funds, ...). This generates charges and reversals, which are disclosed respectively in Note 5.6 Other income and in Note 5.7 Other expenses.

5.7. Other expenses

(in EUR million)	2017	2018
Provisions for litigations (1)	(45)	(54)
Other expenses	(2)	0
TOTAL	**(47)**	**(54)**

(1) Structured loans are regularly analysed based on the progress of cases and on their environment (court decisions, parameters for establishment of support funds, ...). This generates charges and reversals, which are disclosed respectively in Note Note 5.6 Other income and in Note 5.7 Other expenses.

5.8. Operating expenses

(in EUR million)	2017	2018
Payroll costs	(159)	(118)
General and administrative expenses	(219)	(250)
TOTAL	**(378)**	**(369)**

a. Payroll Costs

(in EUR million)	2017	2018
Compensation and salary expense	(100)	(87)
Social security and insurance expense	(36)	(29)
Employee benefits	(8)	(3)
Restructuring costs	(9)	5
Other	(6)	(5)
TOTAL	**(159)**	**(118)**

b. Employee information

	2017 (1)	2018
(Average full time equivalent)	**Fully consolidated**	**Fully consolidated**
Executive staff	33	27
Administrative staff	876	673
Non-administrative and other personnel	13	1
TOTAL	**922**	**701**

(1) 2017 was restated in order to present the figures without DKD's contribution..

	2017 (1)							
(Average full time equivalent)	**Belgium**	**France**	**Italy**	**Spain**	**Other Europe**	**USA**	**Other non Europe**	**Total**
Executive staff	12	4	2	1	2	8	4	33
Administrative staff	54	550	98	18	23	92	41	876
Non-administrative and other personnel	0	0	1	0	0	12	0	13
TOTAL	**66**	**554**	**101**	**19**	**25**	**112**	**45**	**922**

(1) 2017 was restated in order to present the figures without DKD's contribution.

	2018							
(Average full time equivalent)	**Belgium**	**France**	**Italy**	**Spain**	**Other Europe**	**USA**	**Other non Europe**	**Total**
Executive staff	7	7	2	1	2	8	0	27
Administrative staff	48	432	82	8	20	83	0	673
Non-administrative and other personnel	0	0	1	0	0	0	0	1
TOTAL	**55**	**439**	**85**	**9**	**22**	**91**	**0**	**701**

c. General and administrative expenses

(in EUR million)	2017	2018
Cost of premises	(5)	(5)
Rent expense[1]	(18)	(16)
Fees	(54)	(49)
Marketing, advertising and public relations	(1)	(1)
IT expense	(36)	(60)
Software, research and development	(5)	(2)
Maintenance and repair	(1)	(1)
Insurance (except related to pensions)	(4)	(4)
Other taxes[2]	(74)	(90)
Other general and administrative expenses	(21)	(22)
TOTAL	(219)	(250)

(1) This amount does not include IT equipment rental expenses, which are included in the "IT expense" line.
(2) 2017: This item includes a charge of EUR -67 million representing 85% of the amount of payment to the annual contribution to the Single Resolution Fund (SRF) introduced by the European authorities within the framework of the Single Supervisory Mechanism, an amount of EUR - 3 million representing the fees for the ECB supervision, an amount of EUR -7.7 million representing the annual levy for systemic risk and an amount of EUR -2.2 million representing the Dexia contribution to the local authority and hospital sector support funds introduced in France.
2018: This item includes a charge of EUR -71.7 million representing 85% of the amount of payment to the annual contribution to the Single Resolution Fund (SRF) introduced by the European authorities within the framework of the Single Supervisory Mechanism, an amount of EUR - 2.9 million representing the fees for the ECB supervision, an amount of EUR -3.7 million representing the annual levy for systemic risk and an amount of EUR -1.7 million representing the Dexia contribution to the local authority and hospital sector support funds introduced in France.

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

Depreciation and amortisation (in EUR million)	2017	2018
Depreciation of other tangible fixed assets	(2)	(1)
Amortization of intangible assets	(11)	(17)
TOTAL	(14)	(17)

Impairment
Nil.

Losses or gains
Nil.

5.10. Cost of credit risk

(in EUR million)	2017		
	Collective impairment	Specific impairment and losses	Total
Credit (loans, commitments and securities held to maturity)	71	(39)	32
TOTAL	71	(39)	33

Detail of collective and specific impairments

Collective impairement	2017		
(in EUR million)	Additions	Recoveries	Total
Loans and securities held to maturity	(63)	135	71
TOTAL	(63)	135	71

Specific impairment	2017			
(in EUR million)	Additions	Recoveries	Losses	Total
Customer loans and advances	(89)	141	(92)	(41)
Off-balance sheet commitments	(1)	3		2
TOTAL CREDIT	(90)	143	(92)	(39)
TOTAL	(90)	143	(92)	(39)

(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		29
Other accounts receivable			(3)		(3)
Off-balance sheet commitments		5			4
TOTAL	**3**	**163**	**(44)**	**6**	**128**

Detail

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

Stage 2 (in EUR million)	2018 Additions	Recoveries	Total
Financial assets at amortised cost - Interbank loans and advances		1	1
Financial assets at amortised cost - Customer loans and advances	(18)	78	60
Financial assets at amortised cost - Interbank debt securities	(18)	23	5
Financial assets at amortised cost - Customer debt securities	(168)	257	89
Financial assets at fair value through OCI - Customer loans and advances	(2)	3	0
Financial assets at fair value through OCI - Debt securities	(1)	5	4
Off-balance sheet commitments	(2)	6	5
TOTAL	**(209)**	**372**	**163**

Stage 3 (in EUR million)	2018 Additions	Recoveries	Losses	Collections	Total
Financial assets at amortised cost - Customer loans and advances	(36)	17	(20)		(39)
Financial assets at amortised cost - Customer debt securities	(87)	61			(26)
Financial assets at fair value through OCI - Customer loans and advances		1			1
Financial assets at fair value through OCI - Debt securities				23	23
Other accounts receivable	(3)				(3)
TOTAL	**(126)**	**79**	**(20)**	**23**	**(44)**

5.11. Net gains (losses) on other assets

(in EUR million)	2017	2018
Net gains (losses) on disposals of buildings	2	1
Net gains (losses) on disposals of consolidated equity investments[1]	0	8
TOTAL	**2**	**8**

(1) The sale of Dexia Israel

5.12. Income tax

Detail of tax expense (in EUR million)	**2017**	**2018**
Income tax on current year	(6)	4
Deferred taxes on current year	1	(37)
TAX ON CURRENT YEAR RESULT (A)	**(4)**	**(33)**
Income tax on previous year	(7)	(2)
Deferred taxes on previous year	(2)	(5)
OTHER TAX EXPENSE (B)	**(9)**	**(7)**
TOTAL (A) + (B)	**(13)**	**(40)**

Effective corporate income tax charge

The standard tax rate applicable in Belgium in 2017 was 33,99% and in 2018 was 29,58%.

Dexia effective tax rate was respectively -1,01% in 2017 and -6,93% in 2018.

The difference between the standard and the effective tax rate can be analysed as follow:

(in EUR million)	2017	2018
Net income before tax	**(480)**	**(482)**
Tax base	**(480)**	**(482)**
Statutory tax rate	33.99%	29.58%
Theoretical corporate income tax at the standard rate	**163**	**143**
Impact of differences between foreign tax rates and the standard Belgian tax rate	(21)	9
Tax effect of non-deductible expenses	(110)	(82)
Tax effect of non-taxable income	135	92
Impact of items taxed at a reduced rate	5	(4)
Other additional taxes or tax savings[1]	(6)	(74)
Tax effect from reassessment of unrecognised deferred tax assets	(171)	(117)
Tax on current year	**(5)**	**(33)**
Effective tax rate	**(1.01%)**	**(6.93%)**

(1) In 2018, it includes an amount of EUR -59 million related to the discrepancy between fiscal and accounting value of assets in the framework of intra group transfer.

5.13. Earnings per share

a. Basic earnings per share

Basic earnings per share are obtained by dividing «Net income, Group share» by the weighted average number of ordinary shares in issue during the year, less the average number of ordinary shares purchased by the company and held as treasury stock.

	2017	2018
Net income, Group share (EUR million)	(462)	(473)
Weighted average number of ordinary shares (thousand)[1]	29,574	420,134
Basic earnings per share (in EUR)[1]	(15.63)	(1.13)
- of which, related to continuing operations	*(16.72)*	*(1.18)*
- of which, related to discontinued operations	*1.09*	*0.05*

(1) For the calculation of the weighted average number of shares, in 2017, it was taken into account the decision of the extraordinary shareholders' meeting held on 7 December 2017, approving the conversion into common shares of the preferred shares subscribed in 2012 by the Belgian and French States. In addition to the ordinary shares, profit shares bearing Contingent Liquidation Rights (CLR) have been granted to the Belgian and French States. See also note 4.8 Capital stock.

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b. Diluted earnings per share

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to reflect the conversion of all dilutive potential ordinary shares resulting from share options granted to employees and from class B shares. For stock options, the calculation of the number of shares that could have been acquired at fair value (calculated as the average annual share price) is based on the monetary value of the subscription rights attached to the outstanding options.

The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the shares options.

The potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share.

They are antidilutive and not taken into account when their conversion to ordinary shares would decrease loss per share.

No adjustment is made to net income attributable to equity holders of the parent.

	2017	2018
Net income, Group share (EUR million)	(462)	(473)
Weighted-average number of ordinary shares (thousand)	29,574	420,134
Weighted average number of ordinary shares used for the calculation of diluted earnings per share (thousand)	29,574	420,134
Diluted earnings per share (in EUR)	(15.63)	(1.13)
- of which, related to continuing operations	*(16.72)*	*(1.18)*
- of which, related to discontinued operations	*1.09*	*0.05*

6. Note on off-balance-sheet items

6.1. Regular way trade

(in EUR million)	31/12/2017	31/12/2018 Continuing operations	31/12/2018 Activities held for sale
Liabilities to be received	603	102	27

6.2. Guarantees

(in EUR million)	31/12/2017	31/12/2018 Continuing operations	31/12/2018 Activities held for sale
Guarantees given to credit institutions	397	340	
Guarantees given to customers	989	545	12
Guarantees received from credit institutions	250	328	
Guarantees received from customers	4,594	3,072	
Guarantees received from the States	67,623	65,493	

6.3. Loan commitments

(in EUR million)	31/12/2017	31/12/2018 Continuing operations	31/12/2018 Activities held for sale
Unused lines granted to credit institutions	10	9	
Unused lines granted to customers	1,045	784	
Unused lines granted from credit institutions	4,453	4,747	
Unused lines granted from customers	807	778	

6.4. Other commitments

(in EUR million)	31/12/2017	31/12/2018 Continuing operations	31/12/2018 Activities held for sale
Financial instruments given as collateral and other commitments given	65,951	49,399	27
Financial instruments received as collateral and other commitments received	13,117	11,313	

7. Note on risk exposure

(some amounts may not add up due to roundings off)

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7.0. Risk exposure and hedging strategy

We refer to chapter Risk Management of Management Report

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.

	31/12/2017		
(in EUR million)	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	10,721	10,721	0
Interbank loans and advances	6,144	5,979	(165)
Customer loans and advances	99,264	91,898	(7,367)
Financial assets held to maturity	1,750	1,928	178
Interbank borrowings and deposits	31,016	31,009	(7)
Customer borrowings and deposits	6,404	6,433	29
Debt securities	89,654	90,234	580
Subordinated debt	160	161	1

	31/12/2018			31/12/2018		
	Continuing operations			Activities held for sale		
(in EUR million)	Carrying amount	Fair value	Unrecognised fair value adjustment	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	9,269	9,269	0	234	234	0
Financial assets at amortised cost - Debt securities	45,502	38,719	(6,783)	2,789	2,736	(53)
Financial assets at amortised cost - Interbank loans and advances	23,665	23,824	159	2,354	2,366	12
Financial assets at amortised cost - Customer loans and advances	35,158	30,443	(4,715)	14,723	15,414	691
Interbank borrowings and deposits	20,091	20,216	125	1,065	1,067	2
Customer borrowings and deposits	4,873	4,818	(55)	2,139	2,141	2
Debt securities	67 960	68,219	259	16,614	16,706	92
Subordinated debt	126	125	(1)			

c. Methods used to determine the fair value of financial instruments

The following tables provide an analysis of the fair value of financial assets and financial liabilities, based on the degree to which the fair value is observable (Level 1 to 3). The fair value measurement is recurring for financial instruments at fair value. The non-recurring fair value measurement is not significant for Dexia.

In 2018 Dexia updated its methodology to classify debt instruments' levels. Regarding debt securities, the new methodology, among other criteria, incorporates two metrics provided by Bloomberg (FVHL service): the BVAL score which gives a measure of consistency of market inputs used to calculate a securities price and the BRAM scores which give metrics on the calculation of the BVAL score, e.g. the percentage of the BVAL score derived from direct and indirect market observations, the weighted standard deviation of direct executable market observations used in the BVAL score.
This methodology has led to a significant redistribution of Dexia's portfolio from level 3 to level 2 or 1 between 31 December 2017 and 31 december 2018. The main changes concern "loan and receivable" securities that were beforehand conservatively classed level 3 that are now level 1 and 2 according to the new decision tree.

Fair value of financial assets

	31/12/2017			
(in EUR million)	Level 1	Level 2	Level 3	Total
Cash and central banks	0	10,721	0	10,721
Financial assets at fair value through profit and loss	1	9,030	4,158	13,188
** Loans and securities held for trading*	*0*	*0*	*679*	*679*
** Financial assets designated at fair value - equities*	*1*	*0*	*0*	*1*
** Derivatives held for trading*	*0*	*9,030*	*3,479*	*12,509*
Hedging derivatives	0	4,170	814	4,985
Financial assets available for sale	8,271	23	2,537	10,830
** Financial assets available for sale - bonds*	*8,190*	*12*	*2,440*	*10,642*
** Financial assets available for sale - equities*	*80*	*10*	*98*	*188*
Interbank loans and advances	0	2,315	3,663	5,979
Customer loans and advances	641	0	91,256	91,898
Financial assets held to maturity	1,563	0	365	1,928
Financial assets included in non current assets held for sale	253	711	1,127	2,092
TOTAL	**10,728**	**26,971**	**103,921**	**141,621**

Fair value of financial liabilities

	31/12/2017			
(in EUR million)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit and loss	1	10,277	3,915	14,193
** Financial liabilities designated at fair value*	*1*	*994*	*416*	*1,410*
** Derivatives held for trading*	*0*	*9,283*	*3,499*	*12,782*
Hedging derivatives	0	14,916	12,942	27,858
Interbank borrowings and deposits	0	17,385	13,624	31,009
Customer borrowings and deposits	0	1,118	5,315	6,433
Debt securities	0	68,764	21,470	90,234
Subordinated debt	0	0	161	161
Financial liabilities included in disposal groups held for sale	0	1,818	0	1,818
TOTAL	**1**	**114,277**	**57,427**	**171,705**

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	113	2,688	462	3,263
** Debt securities*	*28*	*30*	*194*	*252*
** Loans and advances*	*0*	*2,658*	*236*	*2,894*
** Equity instruments*	*85*	*0*	*32*	*117*
Hedging derivatives	0	962	301	1,263
Financial assets at fair value through OCI	1,975	2,866	76	4,916
** Debt securities*	*1,969*	*2,111*	*62*	*4,142*
** 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	15,674	1,517	38,719
Financial assets at amortised cost - Interbank loans and advances	550	21,583	1,691	23,824
Financial assets at amortised cost - Customer loans and advances	0	22,623	7,820	30,443
Financial assets included in non current assets held for sale	1,611	18,691	4,457	24,758
TOTAL	**25,777**	**100,741**	**20,096**	**146,614**

Detail of fair value of 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*	*1,066*
** 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	**256**	**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**

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.

	31/12/2017	
(in EUR million)	From 1 to 2	From 2 to 1[(1)]
Financial assets available for sale - bonds		136
TOTAL FINANCIAL ASSETS	**0**	**136**
TOTAL FINANCIAL LIABILITIES	**0**	**0**

(1) of which EUR 50 million for Dexia Israel, presented in Non current assets held for sale

The amounts of transfers between levels are the amounts of fair value of financial instruments at the closing date.

There were no transfers between level 1 and level 2 as at 31 December 2018.

e. Level 3 reconciliation

(in EUR million)	2017										
	Opening balance	Transfers in Non current assets held for sale	Total gains/ losses in P&L	Unrealised or deferred gains/ losses	Purchase	Sale[1]	Settlement	Transfer into level 3[2]	Transfer out of level 3[2]	Other movements[3]	Closing
Loans and securities held for trading	1,365		24			(610)	(43)			(57)	679
Derivatives held for trading	4,162		(596)					11	(4)	(93)	3,479
Hedging derivatives	1,354		(479)	22			(8)	1	(43)	(34)	814
Financial assets available for sale - bonds	2,479	(48)	(65)	91		(185)	(298)	780	(149)	(165)	2,440
Financial assets available for sale - equities	115		(3)	(1)		(5)	(4)			(5)	98
Financial assets at fair value included in non current assets held for sale		48	13	3	1			3	(65)	(0)	4
TOTAL FINANCIAL ASSETS	**9,475**	**0**	**(1,106)**	**115**	**1**	**(799)**	**(352)**	**795**	**(261)**	**(355)**	**7,514**
Financial liabilities designated at fair value	520		(35)	34			(43)			(59)	416
Derivatives held for trading	4,329		(1,231)		597			3	(5)	(193)	3,499
Hedging derivatives	15,318		(1,489)		2			14	(284)	(618)	12,942
TOTAL FINANCIAL LIABILITIES	**20,166**	**0**	**(2,756)**	**34**	**599**	**0**	**(43)**	**17**	**(289)**	**(870)**	**16,858**

(1) Loans and securities held for trading : Dexia Crédit Local sold some of its Negative Basis Trade
(2) Transfers between levels result from the variation of the BVAL score (Bloomberg valuation)
(3) Other movements include notably exchange differences for companies in euro and translation differences for companies in foreign currencies. On the assets side, they amount to EUR -195 million in result and to EUR -156 million recognised in Unrealised or deferred gains and losses through equity. On the liabilities side, they amount to EUR -811 million recognised in result and to EUR -59 million recognised in Unrealised or deferred gains or losses through equity.

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

(in EUR million)	2018										
	Opening balance	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 assets mandatorily at fair value through profit or loss											
Debt securities	*662*	*(343)*	*(46)*				*(24)*		*(58)*	*2*	*194*
Loans and advances	*1,174*	*(366)*	*(33)*				*(388)*		*(149)*		*236*
Equity instruments	*67*		*(4)*				*(32)*			*2*	*32*
Trading derivatives	3,422		87					229		33	3,772
Hedging derivatives	850	(317)	(67)	(18)				36	(186)	3	301
Financial assets at fair value through other comprehensive income											
Debt securities	*5,821*		*(3)*			*(1,593)*	*(15)*		*(4,266)*	*118*	*62*
Loand and advances	*139*	*(133)*					*(2)*	*5*			*9*
Equity instruments	*6*									*(1)*	*5*
Financial assets at fair value included in non current assets held for sale	0	1 159	(91)				(32)		(608)		428
TOTAL FINANCIAL ASSETS	**12,141**	**0**	**(156)**	**(18)**	**0**	**(1,593)**	**(493)**	**270**	**(5,267)**	**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	0	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+ 142 million recognised in result.

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

f. Sensitivity of the fair value of level 3 financial instruments to reasonably possible alternative assumptions

Dexia 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 31 December 2018. The sensitivity analysis has been conducted using reasonably possible inputs or applying assumptions in line with the valuation adjustment policies for the financial instruments in question.

The table hereunder summarizes the financial assets and liabilities classified as Level 3 for which alternative assumptions in one or more unobservable inputs would lead to a significant variation in fair value.

(in EUR million)

Financial instruments	Non 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	0 bp	345 bps	(23.5)	11.4
CDS	Credit spread	+ / – one standard deviation		(17.8)	16.8
Derivatives	Interest rate	+ / – one standard deviation		(19.8)	19.8
	Spread of CBS	+ / – one standard deviation		(10.9)	10.9
	Inflation	+ / – one standard deviation		(3.4)	3.4
TOTAL				**(77.7)**	**64.6**

The unobservable input in the valuation of bonds and credit derivatives (CDS) classified in level 3 is the credit spread. The alternative assumptions used to measure the fair value sensitivity of those financial instruments are based on the dispersion of the spreads used for their 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 -2.3 million (reflecting a deterioration in the above-mentioned inputs) to EUR +2.3 million (reflecting an improvement in the above-mentioned inputs), while the sensitivity of the CDS' fair value is estimated range from EUR -17.8 million EUR in the adverse scenario to EUR +16.8 million in the favorable scenario.

For the loans classified in level 3, the alternative assumptions consist in using the minimum and maximum spreads observed when valuating similar assets by Dexia. The impact of those alternative assumptions is estimated to EUR – 23.5 million for the worst case scenario to EUR + 11.4 million for the best case scenario.

For level 3 derivatives, the unobservable market inputs are mainly the interest rate, the inflation and the currency basis spreads (CBS). The alternative assumptions used by Dexia 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 – 34.1 million for the worst case scenario and EUR + 34.1 million for the best case scenario.

In 2017 tests have been performed on all bonds and CDS classified in level 3. The main impacts are the following:

• For level 3 bonds in AFS, the sensitivity of the AFS reserve to alternative assumptions is estimated to vary between EUR -17 million (negative impact) and EUR +17 million (positive impact in 2017.

• For level 3 bonds in trading portfolio (Trading), the sensitivity of the variation in market value to alternative assumptions is estimated to vary between EUR -9 million (negative impact) and EUR +9 million (positive impact) for 2017. Bonds of this category are mostly components of NBT.

• The impact of the credit spreads alternative assumptions on Dexia's credit derivatives is estimated at EU 15.5 million (positive scenario) versus EUR -15.8 million (negative scenario). It is to be noted that certin CDS are part of NBT.

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

No amount was booked as deferred DOP

7.2. Credit risk exposure

The Exposure at Default (EAD) is one of the parameters used to calculate capital requirements under the Regulation (EU) No 575/2013.

It corresponds to the best estimate of credit risk exposure at default and the definition varies depending on the approach adopted in calculating capital requirements. The Dexia Group uses both the standard and the advanced approach to calculate its risk-weighted assets.

• For financial assets measured at amortised cost, the EAD of a credit exposure on the balance sheet corresponds to the book value, gross of impairments, taking account of accrued interest and the impact of hedge accounting;

• For financial assets measured at fair value, the EAD of a credit exposure on the balance sheet corresponds to the carrying amount before impairments;

• For derivatives, the EAD is calculated using the mark-to-market valuation method under Article 274 of the Regulation (EU) No 575/2013 and includes the replacement cost as well as the amount representing future potential exposure, obtained by the product of the notional amount and a coefficient depending on the type of derivative and its residual term;

• For off-balance-sheet commitments, the EAD represents the product of the (nominal) amounts of commitments and a Credit Conversion Factor (CCF). The Dexia 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 Group has decided to exclude from the scope of this report the other assets, mainly accruals and other assets.

As at 31 December 2018, the credit risk exposure amounts to EUR 124 billion of which EUR 19 billion in *Non current assets held for sale*.

a. Concentration by credit risk

Concentration by geographic region

(in EUR million)	31/12/2017	31/12/2018	
		Continuing operations	Activities held for sale (DKD)
France	28,201	22,216	54
Belgium	1,648	531	1,406
Germany	17,835	1,909	14,805
Greece	88	78	0
Ireland	10	7	0
Italy	23,002	21,046	837
Luxembourg	38	49	0
Spain	10,136	7,393	28
Portugal	3,924	4,187	235
Hungary	2	2	0
Austria	1,058	10	1,014
Central and Eastern Europe	954	889	0
Netherlands	130	80	26
Scandinavian countries	528	198	20
Great Britain	22,178	21,061	53
Switzerland	357	353	0
Turkey	169	0	0
United States	17,483	14,865	152
Canada	2,071	1,882	0
South and Central America	430	345	0
Southeast Asia	451	202	0
Japan	6,152	5,469	0
Israel	2,083	7	0
Other [(1)]	2,956	1,967	267
TOTAL	**141,881**	**104,747**	**18,896**

(1) Includes supranational entities

Concentration by sector of the counterparty

(in EUR million)	31/12/2017		31/12/2018	
	Continuing operations	Activities held for sale (Dexia Israel)	Continuing operations	Activities held for sale (DKD)
Central governments	28,722	979	25,416	1,666
Local public sector[(1)]	74,576	1,045	49,153	16,651
Financial institutions	13,165	9	9,849	557
Corporates	5,772	35	5,732	
Monoline	1,500		1,488	
ABS/MBS	4,424		2,822	9
Project finance	11,632	20	10,286	14
Individuals, SME, self-employed	1		1	
TOTAL	**139,793**	**2,088**	**104,747**	**18,896**

(1) As at 31/12/2018, this category includes, for continuing operations : EUR 1 million on Greece, EUR 1 million on Hungary, EUR 8,993 million on Italy, EUR 1,357 million on Portugal and EUR 4,145 million on Spain and as at 31/12/2017, this category includes : EUR 3 million on Greece, EUR 2 million on Hungary, EUR 9,739 million on Italy, EUR 1,698 million on Portugal and EUR 5,489 million on Spain

Credit quality of performing financial assets

The credit quality of financial assets is measured by reference to internal (Basel II standard) or external ratings. Indeed, Dexia applies the AIRBA (Advanced Internal Ratings Based Approach) for the calculation of capital requirements for credit risk within the context of Pillar I of Basel, except for ABS positions for which credit risk is calculated within the Ratings based Approach, based on external ratings (Fitch, Standard &Poors or Moody's) and for part of its portfolio where credit risk exposure is calculated in accordance with the Basel Standard Method.

	31/12/2017				
(in EUR million)	AAA to AA$^-$	A$^+$ to BBB$^-$	Non investment grade	Unrated	Total
Financial assets available for sale (excluding variable income securities)	1,795	8,762	85		10,642
Financial assets held for trading (excluding variable income securities)	0	649	30		679
Derivatives held for trading	170	3,419	552		4,141
Hedging derivatives	8	647	31		686
Financial assets held to maturity		1,750			1,750
Loans and advances (at amortised cost)	48,058	55,112	10,867	567	114,604
Loans commitments granted	453	224	31	12	720
Guarantee commitments granted	214	4,457	94	4	4,768
Financial assets included in non current assets held for sale	6	1,912	157	14	2,088
TOTAL	**50,704**	**76,930**	**11,848**	**597**	**140,079**

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.

Exposure at Default (EAD) by credit rating grades - continuing operations

EAD	31/12/2018											
	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		12,298	2,765			134				
Local public sector	13,539	80	2	17,281	6,366	43	47	7,181	646	34	202	2
Financial institutions	334			4,300	131		8					
Corporates				5,341	149	1	12	20	5	15		
Monolines				721	715	53						
ABS/MBS	2,150	189		206	105	51	52		20	43		
Project finance	12			6,238	586		87	1,333	504			
Individuals, sme, self-employed									1			

(1) The rating takes into account the effects of credit risk mitigations. Exposures (EAD) in stage 2 or stage 3 may have rating grades AAA to AA-, due to the effect of the guarantees.

Exposure at Default (EAD) by credit rating grades - activities held for sale

EAD	31/12/2018											
	AAA à AA-			A+ à 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	15,245	373		499	50			125			4	
Financial institutions	157			37	99							
ABS/MBS	9											
Project finance					14							

(1) The rating takes into account the effects of credit risk mitigations. Exposures (EAD) in stage 2 or stage 3 may have rating grades AAA to AA-, due to the effect of the guarantees.

Purchased or originated credit impaired debt instruments - continuing operations

	31/12/2018	
(in EUR million)	AAA to AA-	Non investment grade
Local public sector	23	62

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

	31/12/2017					
	Continuing operations			Activities held for sale (Dexia Israel)		
(in EUR million)	Credit risk exposure before financial effect of the collateral	Financial effect of the collateral	Credit risk exposure	Credit risk exposure before financial effect of the collateral	Financial effect of the collateral	Credit risk exposure
Financial assets available for sale (excluding variable income securities)	10,642		10,642	140		140
Financial assets held for trading (excluding variable income securities)	679		679			
Derivatives held for trading	6,281	2,003	4,278			
Hedging derivatives	1,693	1,007	686			
Financial assets held to maturity	1,750		1,750	136		136
Loans and advances (at amortised cost)	118,109	1,866	116,243	1,812		1,812
Loans commitments granted	723		723			
Guarantee commitments granted	35,892	31,100	4,792			
TOTAL	**175,769**	**35,976**	**139,793**	**2,088**		**2,088**

Dexia holds financial collaterals composed of cash collaterals and term deposits, and to a lesser extent, of investment grade bonds (mainly AAA- AA sovereign or banking issuers).
Only financial collaterals eligible under Basel and directly held by Dexia are considered.
Credit risk exposure is presented gross of specific impairment. The amount of specific impairment by class of financial instruments is presented in the note 2.12 *Quality of financial assets*.

	31/12/2018					
	Continuing operations			Activities held for sale (DKD)		
(in EUR million)	Credit risk exposure before financial effect of the collateral	Financial effect of the collateral	Credit risk exposure	Credit risk exposure before financial effect of the collateral	Financial effect of the collateral	Credit risk exposure
a) Assets not subject to impairment						
Non trading financial assets mandatorily at FVTPL	3,161		3,161	531		531
Trading derivatives	5,520	1,673	3,847	89	60	29
Hedging derivatives	667	158	509	1,337	1,176	161
b) Assets subject to impairment						
Financial assets at fair value through OCI (excluding variable income securities)	4,881		4,881	122		122
Financial assets at amortised cost	89,384	1,027	88,357	17,993		17,993
c) Off balance sheet items						
Loans commitments granted	550		550			
Guarantee commitments granted	22,645	19,202	3,443	59		59
TOTAL	**126,807**	**22,060**	**104,747**	**20,132**	**1,235**	**18,896**

Dexia holds financial collaterals composed of cash collaterals and term deposits, and to a lesser extent, of investment grade bonds (mainly AAA- AA sovereign or banking issuers). The quality of collaterals remained unchanged in 2018.
Only financial collaterals eligible under Basel and directly held by Dexia are considered.
Credit risk exposure is presented gross of specific impairment. The amount of specific impairment by class of financial instruments is pressented in the note 2.12 *Quality of financial assets*.

c. Forbearance

Regarding Dexia activities, restructured loans include 3 different types of restructuring:
1. Restructuring related to commercial relationships with customers, which represented almost all restructuring until 2011 except litigations in the Netherlands;
2. Restructuring related to litigations, mainly on structured loans, with customers without any financial difficulties;
3. Restructuring related to financial difficulties of the counterparty both under normal relationship or under litigations.
In accordance wih the EBA's definition of Forbearance, only the 3rd case is considered as forborne loan in the context of this analysis. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments.

As at 31 december 2018, total restructured loans related to financial difficulties of debtors was EUR 614 million (of which EUR 50 million for DKD) against EUR 1,078 million (of which EUR 3 million for Dexia Israel) as at 31 december 2017.
The decrease is the result of the sale of some exposures and of the exit from forborne status.

d. Collateral and other credit enhancements obtained by taking possession of collateral during the period

There are no assets of this type in 2018 nor in 2017.

e. Movements in loss allowances for credit losses

	2017							
(in EUR million)	**As at 1 Jan.**	**Additions(1)**	**Reversals(1)**	**Utilisation**	**Other adjustments (2)**	**As at 31 Dec.**	**Recoveries directly recognized in profit or loss**	**Charge-offs directly recognized in profit or loss(1)**
Specific impairment	**(365)**	**(90)**	**141**	**1**	**15**	**(299)**		**(92)**
Customer loans and advances	(321)	(89)	141		12	(257)		(92)
Available for sale securities	(43)	(1)		1	3	(41)		
Variable revenue instruments	*(43)*	*(1)*		*1*	*3*	*(41)*		
Accruals and other assets	(2)					(2)		
Collective impairment	**(416)**	**(65)**	**136**		**15**	**(331)**		
Interbank loans and advances	(37)	(3)	22			(19)		
Customer loans and advances	(379)	(62)	114		15	(312)		
TOTAL	**(781)**	**(155)**	**277**	**1**	**30**	**(631)**		**(92)**

(1) Following the disposal of some of the exposures on Puerto Rico, reversals of specific impairment have been booked for CVEUR 40 million and an amount of charge-offs has been recognized directly in profit or loss for CVEUR 60 million; also, an additional provision of CVEUR 38 million was booked on the residual exposures on public entities related to the Commonwealth of Puerto Rico.
(2) Other adjustments include notably the impact of changes in exchange rates during the year.

(in EUR million)	2018 As at 1 Jan.	Transfers in non current assets held for sale	Transfers between stages [3]	Decreases due to dere-cognition	Changes due to chan-ge 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
- Customer debt securities	3						3
- Customer loans and advances	2	(1)					1
Financial assets at fair value through other comprehensive income	**3**				**(2)**		**1**
- Debt securities	3				(2)		1
Allowances for financial assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	**497**	**(32)**	**(8)**	**(1)**	**(149)**	**31**	**337**
Financial assets at amortised cost	**489**	**(32)**	**(8)**		**(146)**	**31**	**333**
- Interbank debt securities	24	(1)			(5)	1	19
- Customer debt securities	309	(28)	(3)		(86)	30	223
- Interbank loans and advances	2				(1)		2
- Customer loans and advances	153	(3)	(5)		(55)		90
Financial assets at fair value through other comprehensive income	**8**			**(1)**	**(3)**		**4**
- Debt securities	6				(3)		2
- Customer loans and advances	3			(1)			2
Allowances for credit-impaired debt instruments (Stage 3)	**233**		**9**	**(1)**	**38**	**13**	**292**
Financial assets at amortised cost	**230**		**9**	**(1)**	**36**	**7**	**281**
- Customer debt securities	64				26	3	93
- Customer loans and advances	165		9	(1)	10	3	187
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**	**641**

Provisions on commitments and financial guarantees given							
- on commitments and financial guarantees given (Stage 2)	7				(4)		2
- on commitments and financial guarantees given (Stage 3)	6						6
TOTAL PROVISIONS ON COMMITMENTS AND FINANCIAL GUARANTEES GIVEN	**13**				**(4)**		**8**

(1) During 2018, the allowances on debt instruments in stage 2 decreased by EUR 149 million, notably thanks to the improvement of the credit rating of the Portugese sovereign (EUR - 54 million) and also as a consequence of the transfer to stage 3 of some exposures on American local public sector (EUR 21 million). The allowances on credit-impaired debt instruments increased by EUR 38 million.They include among others an allowance on the Chicago Board of Education (EUR 83 million) and reversal of allowances following the sale of the exposures related to the Commonwealth of Puerto Rico (EUR -37 million) and the redemption of debts associated with the Bulgarian railway sector (EUR -21 million).
(2) Other adjustments include notably the impact of changes in exchange rates during the year.
(3) Those amounts are reported in the statement of income

In 2018, there were no recoveries directly recognised in profit or loss nor charge-offs directly recognised in profit or loss.

f. Purchased or originated credit impaired assets

	Undiscounted expected credit losses at initial recognition recognised during the period
(in EUR million)	**2018**
Financial assets at amortised cost	(13)

g. Reconciliation of gross carrying variation

(in EUR million)	2018									
	As at 1 Jan.	Transfers in non current assets held for sale	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3		Other variations	As at 31 Dec.
			To stage 2 from stage 1	To stage 1 from stage 2	To stage 3 from stage 2	To stage 2 from stage 3	To stage 3 from stage 1	To stage 1 from stage 3		
Financial assets at amortised cost	**136,008**	**(22,640)**							**(8,430)**	**104,938**
-Debt securities	50,675	(3,008)							(1,827)	45,840
** stage 1[1]*	*38,083*	*(2,581)*	*(688)*	*315*					*(1,652)*	*33,477*
** stage 2*	*12,409*	*(427)*	*688*	*(315)*	*(367)*				*(80)*	*11,908*
** stage 3*	*183*				*367*				*(95)*	*455*
- Interbank loans and advances	30,638	(3,739)							(3,227)	23,672
** stage 1[2]*	*30,296*	*(3,702)*							*(3,121)*	*23,473*
** stage 2*	*342*	*(37)*							*(106)*	*199*
- Customer loans and advances	54,695	(15,893)							(3,376)	35,426
** stage 1[3]*	*44,044*	*(15,120)*	*(179)*	*1,828*			*(27)*		*(2,835)*	*27,710*
** stage 2*	*9,877*	*(698)*	*179*	*(1,828)*	*(121)*				*(493)*	*6,917*
** stage 3*	*774*	*(75)*			*121*		*27*		*(47)*	*799*
Financial assets at FVOCI	**11,731**	**(133)**							**(6,714)**	**4,883**
- Debt securities	8,580								(4,436)	4,145
** stage 1[4]*	*7,299*			*56*					*(3,881)*	*3,474*
** stage 2*	*1,277*			*(56)*					*(555)*	*666*
** stage 3*	*5*								*(0)*	*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 1,652 million partly due to the sale of Italian and US public sector securities.
(2) decrease by EUR 3,121 million : mainly due to the decrease of cash collateral paid (EUR 2,744 million).
(3) decrease by EUR 2,835 million among which an amount around EUR 500 million of French public sector loans included in two portfolios of receivables sold following a call for tenders from investors. These sales were for a total outstanding of EUR 1.1 billion concerning 186 loans.
(4) decrease by EUR 3,881 million mainly due to the sale of Spanish covered bonds, US student loans and of exposures related to the Japanese sovereign and local public sector.
(5) decrease by EUR 2,278 million mainly explained by the sale of social housing loans in France for an amount of EUR 796 million and by the sale of French public sector loans. An amount of around EUR 600 million of the total outstanding sold of EUR 1.1 billion is included here. Sales of Spanish local public loans are also included here.

The transfers are those as at 31 December 2018.

h. Credit risk on loans and advances designated at fair value through profit or loss

Dexia no longer holds loans and advances designated at fair value through profit or loss.

i. Modified assets

Nil.

j. Written-off assets that are still subject to enforcement activity

Nil.

7.3. Collateral

a. Nature of the assets received as collateral if this collateral can be sold or repledged

(in EUR million)	31/12/2017		31/12/2018 - continuing operations	
	Fair values of collateral held	Fair value of collateral sold or repledged	Fair value of collateral held	Fair value of collateral sold or repledged
Debt securities	2,923	1,160	2,483	1,381
TOTAL	**2,923**	**1,160**	**2,483**	**1,381**

Collateral is obtained in connection with the repurchase agreement activities.

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

(in EUR million)	31/12/17	31/12/2018 - continuing operations
Carrying amount of financial assets pledged as collateral for liabilities	83,977	67,950

The amount of EUR 68 billion in 2018 and of EUR 84 billion in 2017 represents the amount of liquidity paid over as collateral for derivatives and assets pledged as collateral for funding received from the Eurosystem, the European Investment Bank, agreements for the temporary lending of stocks or other secured funding. This amount includes neither the assets guaranteeing the covered bonds issued by Dexia Kommunalbank Deutschland (DKD) nor Dexia FP Holdings Inc.'s Guaranteed Investment Contracts (GICs). These assets are close to EUR 20.5 billion in 2018 (of which EUR 19 billion for DKD accounted for in non current assets held for sale). In 2017, they amounted to EUR 24 billion, in which EUR 22.5 billion for DKD.

7.4. Interest-rate repricing risk: breakdown by remaining maturity until next refixing interest rate

Demand deposits are reported in the "Demand" column, as the information presented below takes into account the current maturity until the next date on which interest rates are reset from an accounting standpoint, rather than assumptions based on observed behavioral data.

a. Analysis of assets

	31/12/2017									
(in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and central banks	560	10,161	0	0	0	0	0			10,721
Financial assets at fair value through profit or loss	0	554	3	24	2	0	816	11,790		13,188
of which Trading derivatives							*813*	*11,696*		*12,509*
Hedging derivatives							531	4,454		4,985
Financial assets available for sale	0	332	394	946	6,750	55	143	2,251	(40)	10,830
Interbank loans and advances	332	3,256	414	850	700	0	23	587	(18)	6,144
Customer loans and advances	6	18,985	21,375	6,795	33,229	18	786	18,639	(569)	99,264
Fair value revaluation of portfolio hedge								1,314		1,314
Financial assets held to maturity	0	17	27	30	1,639	0	37		0	1,750
Accruals and other assets	0	193	80	0	301	29,978	(1)	0	(1)	30,550
of which paid cash collateral						*29,989*	*(1)*			*29,989*
Non current assets held for sale	1,320	21	155	353	227	18	9	2		2,105
Subtotal financial assets used to calculate the gap	*2,219*	*33,518*	*22,448*	*8,998*	*42,848*	*30,051*				
Non-financial assets						87		0	0	87
TOTAL	**2,219**	**33,518**	**22,448**	**8,998**	**42,848**	**30,157**	**2,343**	**39,037**	**(630)**	**180,938**

b. Analysis of liabilities excluding shareholders' equity

(in EUR million)	31/12/2017								
	Demand	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undetermined maturity**	**Accrued interest**	**Fair value adjustment**	**Total**
Financial liabilities at fair value through profit and loss	0	95	0	75	906	0	717	12,400	14,193
of which Trading derivatives							*704*	*12,079*	*12,782*
Hedging derivatives							875	26,982	27,858
Interbank borrowings and deposits	280	28,434	1,156	653	427	0	51	15	31,016
Customer borrowings and deposits	314	4,786	748	175	346	0	13	22	6,404
Debt securities		18,692	15,545	34,451	16,817	0	619	3,531	89,654
Fair value revaluation of portfolio hedge								41	41
Subordinated debts	0	145	14	0	0	0	0	0	160
Accruals and other liabilities	1	304	58	13	36	3,529	0		3,941
of which received cash collateral						*3,524*	*0*		*3,524*
Liabilities included in disposal groups held for sale	1,106	146	196	324	112	1	10		1,894
Subtotal financial liabilities used to calculate the gap	*1,700*	*52,602*	*17,717*	*35,691*	*18,643*	*3,529*			
Non-financial liabilities						375			375
TOTAL	**1,700**	**52,602**	**17,717**	**35,691**	**18,643**	**3,905**	**2,287**	**42,991**	**175,536**

c. Balance-sheet sensitivity gap as at 31/12/2017

(in EUR million)	**Demand**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undetermined maturity**
	519	(19,084)	4,730	(26,692)	24,205	26,523

Balance-sheet sensitivity gap is hedged through derivatives.

a. Analysis of assets

(in EUR million)	31/12/2018 Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undeter-mined maturity	Accrued interest	Fair value adjust-ment	Impair-ment	Total
Cash and central banks	939	8,330	0	0	0	0	0			9,269
Financial assets at fair value through profit or loss	0	158	557	718	1,373	14	648	9,952		13,421
of which Trading derivatives							*619*	*9,539*		*10,158*
Hedging derivatives							222	1,040		1,263
Financial assets at fair value through OCI	0	653	1,478	517	1,849	0	44	381	(6)	4,916
Financial assets at amortised cost - Debt securities	12	5,334	8,730	1,491	18,823	0	370	11,081	(338)	45,502
Financial assets at amortised cost - Interbank loans and advances(1)	585	2	1,744	950	60	20,310	3	13	(2)	23,665
Financial assets at amortised cost - Customer loans and advances(1)	1	1,278	3,103	5,014	16,651	4,866	137	4,382	(273)	35,158
Fair value revaluation of portfolio hedge								748		748
Accruals and other assets	1	116	1	0	264	18	0	0	(10)	389
Continuing operations : subtotal financial assets used to calculate the gap	*1,538*	*15,871*	*15,613*	*8,690*	*39,019*	*25,208*	*1,425*	*27,596*	*(629)*	*134,332*
Non-financial assets						97				97
TOTAL CONTINUING OPERATIONS	**1,538**	**15,871**	**15,613**	**8,690**	**39,019**	**25,306**	**1,425**	**27,596**	**(629)**	**134,429**
Activities held for sale : financial assets included in non current assets held for sale - used to calculate the gap	98	273	471	1,846	12,149	2,112	546	6,879	(4)	24,371
Non financial assets - activities held for sale						4				4
TOTAL	**1,636**	**16,144**	**16,084**	**10,536**	**51,169**	**27,422**	**1,971**	**34,476**	**(633)**	**158,804**

(1) Paid cash collaterals are declared in undetermined maturity

b. Analysis of liabilities excluding shareholders' equity

(in EUR million)	31/12/2018 Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undeter-mined maturity	Accrued interest	Fair value adjust-ment	Total
Financial liabilities at fair value through profit and loss	0	0	37	15	793	0	572	10,455	11,872
of which Trading derivatives							*565*	*10,242*	*10,807*
Hedging derivatives							427	20,724	21,151
Financial liabilities at amortised cost - Interbank borrowings and deposits(1)	3,351	4,088	2,355	6,045	1,847	2,333	56	16	20,091
Financial liabilities at amortised cost - Customer borrowings and deposits(1)	256	4,331	168	0	34	85	(1)		4,873
Financial liabilities at amortised cost - Debt securities	0	9,321	19,464	27,480	10,921	0	393	380	67,960
Fair value revaluation of portfolio hedge								13	13
Subordinated debts	0	106	0	0	19	0	0		126
Accruals and other liabilities	2	310	21	11	33	34	0		411
Continuing operations : subtotal financial liabilities used to calculate the gap	*3,609*	*18,157*	*22,044*	*33,552*	*13,648*	*2,452*	*1,448*	*31,588*	*126,497*
Non-financial liabilities						411			411
TOTAL CONTINUING OPERATIONS	**3,609**	**18,157**	**22,044**	**33,552**	**13,648**	**2,863**	**1,448**	**31,588**	**126,908**
Activities held for sale : financial liabilities included in disposal groups held for sale - used to calculate the gap		726	2,929	5,222	6,671	1,235	518	6,746	24,048
Non financial liabilities - activities held for sale						7			7
TOTAL	**3,609**	**18,883**	**24,974**	**38,773**	**20,319**	**4,106**	**1,966**	**38,333**	**150,963**

(1) Received cash collaterals are declared in undetermined maturity

c. Balance-sheet sensitivity gap as at 31/12/2018

(in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity
Balance sheet sensitivity as at 31/12/2018 - continuing operations	(2,071)	(2,286)	(6,432)	(24,862)	25,372	22,756
Balance sheet sensitivity as at 31/12/2018 - activities held for sale	98	(453)	(2,458)	(3,376)	5,478	877
NET BALANCE SHEET SENSITIVITY AS AT 31/12/2018	(1,973)	(2,739)	(8,890)	(28,238)	30,850	23,633

7.5. Sensitivity to interest rate risk and other market risks

We also refer to the chapter Risk Management of the Management Report.

a. Market risk

Market risk

The Dexia 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 trading portfolio is composed of two groups of activity:

- Transactions initiated by financial instrument trading activities until the date on which the Group was placed in orderly resolution, mostly covered back-to-back;
- Transactions intended to hedge risks arising from disinvestments or asset sales within the framework of the orderly resolution plan.

The main risk factors of the trading portfolio are:

- Interest rate risk, in particular on the euro zone and the dollar zone;
- Cross currency basis swap risk;
- Basic risk BOR-OIS in the same currency.

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

Value at Risk (VaR)

The detail of the VaR the trading portfolios is presented in the following table. At the end of December 2018, total consumption in VaR was EUR 1.7 million against EUR 3.3 million at the end of 2017. This fall is mainly explained by the reclassification as at 1 January 2018 of residual positions of securities in the trading portfolio to the banking portfolio, setting the spread VaR to 0. It is to be noted that Dexia Kommunalbank Deutschland (DKD) has no trading portfolio.

(in EUR million)	Value at Risk of the trading portfolio 2017			
VaR (10 days, 99 %)	**Interest rate**	**Spread**	**Other risks**	**Total**
Average	2.5	3.8	0.1	6.5
End of period	1.5	1.8	0.1	3.3
Maximum	3.0	4.2	0.1	7.3
Minimum	1.5	1.8	0.1	3.3

(in EUR million)	Value at Risk of the trading portfolio 2018			
VaR (10 days, 99 %)	**Interest rate**	**Spread**	**Other risks**	**Total**
Average	1.5	0	0	1.5
End of period	1.7	0	0	1.7
Maximum	1.9	0	0	1.9
Minimum	1.2	0	0	1.2

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

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

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

Under IFRS 9, the portfolio classified at fair value through equity consists of securities and loans and presents sharply reduced sensitivity to an increase of credit spreads. It was EUR -2.8 million as at 31 December 2018 (EUR -2.7 millions excluding 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 -2.3 million as at 31 December 2018 (EUR -1.9 million excluding activities held for sale – DKD).

b. Transformation risk

Dexia'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 Group's structural interest rate risk is mainly concentrated on European long-term interest rates, and arises from the imbalance between Dexia's assets and liabilities after hedging for interest rate risk.

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

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

7.6. Liquidity risk

A. Analysis by term to maturity

A large part of the balance sheet consists of the revaluation of assets, liabilities and derivatives. As such revaluations vary constantly and cannot therefore be linked to the maturity of the financial instruments, they are presented under a separate column.

Demand deposits and saving deposits are included in the "Demand" column, even though they have no fixed repayment date.

a. Analysis of assets

	31/12/2017									
(in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and central banks	560	10,161	0	0	0	0	0			10,721
Financial assets at fair value through profit or loss	0	5	5	39	534	0	816	11,790		13,188
of which Trading derivatives							*813*	*11,696*		*12,509*
Hedging derivatives							531	4,454		4,985
Financial assets available for sale	0	319	301	946	6,855	55	143	2,251	(40)	10,830
Interbank loans and advances	432	225	942	2,698	1,254	0	23	587	(18)	6,144
Customer loans and advances	3	950	3,410	12,410	63,617	18	786	18,639	(569)	99,264
Fair value revaluation of portfolio hedge								1,314		1,314
Financial assets held to maturity	0	17	27	30	1,639	0	37		0	1,750
Accruals and other assets	0	193	80	0	301	29,978	(1)	0	(1)	30,550
of which paid cash collateral						*29,989*	*(1)*			*29,989*
Non current assets held for sale	1,320	21	155	353	227	18	9	2		2,105
Subtotal financial assets used to calculate the gap	*2,316*	*11,893*	*4,920*	*16,476*	*74,426*	*30,051*				
Non-financial assets						87		0	0	87
TOTAL	**2,316**	**11,893**	**4,920**	**16,476**	**74,426**	**30,157**	**2,343**	**39,037**	**(630)**	**180,938**

b. Analysis of liabilities excluding shareholders' equity

(in EUR million)	31/12/2017 Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Financial liabilities at fair value through profit and loss	0	0	12	49	1,014	0	717	12,400	14,193
of which Trading derivatives							*704*	*12,079*	*12,782*
Hedging derivatives							875	26,982	27,858
Interbank borrowings and deposits	280	11,792	5,580	10,626	2,671	0	51	15	31,016
Customer borrwings and deposits	314	4,786	597	169	504	0	13	22	6,404
Debt securities	0	10,204	20,296	37,624	17,380	0	619	3,531	89,654
Fair value revaluation of portfolio hedge								41	41
Subordinated debts	0	0	34	106	19	0	0	0	160
Accruals and other liabilities	1	297	66	13	36	3,529	0		3,941
of which received cash collateral						*3,524*	*0*		*3,524*
Liabilities included in disposal groups held for sale	1,106	146	196	324	112	1	10		1,894
Subtotal financial liabilities used to calculate the gap	*1,700*	*27,225*	*26,780*	*48,911*	*21,737*	*3,529*			
Non-financial liabilities						375			375
TOTAL	**1,700**	**27,225**	**26,780**	**48,911**	**21,737**	**3,905**	**2,287**	**42,991**	**175,536**

Net liquidity gap as at 31/12/2017 (in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity
	616	(15,333)	(21,860)	(32,435)	52,690	26,523

This table does not take into account the liquidity of the asset nor its eligibility for refinancing; some listed long-term assets may be sold or refinanced with central banks in case of need of liquidity.

a. Analysis of assets

(in EUR million)	31/12/2018 Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and central banks	939	8,330	0	0	0	0	0			9,269
Financial assets at fair value through profit or loss	0	154	259	852	1,541	14	648	9,952		13,421
of which Trading derivatives							*619*	*9,539*		*10,158*
Hedging derivatives							222	1,040		1,263
Financial assets at fair value through OCI	0	298	264	688	3,248	0	44	381	(6)	4,916
Financial assets at amortised cost - Debt securities	12	56	608	3,446	30,267	0	370	11,081	(338)	45,502
Financial assets at amortised cost - Interbank loans and advances(1)	585	2	1,747	947	60	20,310	3	13	(2)	23,665
Financial assets at amortised cost - Customers loans and advances(1)	1	1,063	1,417	5,534	18,032	4,866	137	4,382	(273)	35,158
Fair value revaluation of portfolio hedge								748		748
Accruals and other assets	1	116	1	0	264	18	0		(10)	389
Continuing operations : subtotal financial assets used to calculate the gap	*1,538*	*10,020*	*4,295*	*11,465*	*53,412*	*25,208*	*1,425*	*27,596*	*(629)*	*134,332*
Non-financial assets						97				97
TOTAL CONTINUING OPERATIONS	**1,538**	**10,020**	**4,295**	**11,465**	**53,412**	**25,306**	**1,425**	**27,596**	**(629)**	**134,429**
Activities held for sale : financial assets included in non current assets held for sale - used to calculate the gap	98	273	471	1,846	12,149	2,112	546	6,879	(4)	24,371
Non-financial assets - activities held for sale						4				4
TOTAL	**1,636**	**10,293**	**4,767**	**13,311**	**65,562**	**27,422**	**1,971**	**34,476**	**(633)**	**158,804**

(1) Paid cash collaterals are declared in undetermined maturity

b. Analysis of liabilities excluding shareholders' equity

(in EUR million)	31/12/2018								
	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Financial liabilities at fair value through profit and loss	0	3	37	11	794	0	572	10,455	11,872
of which Trading derivatives							*565*	*10,242*	*10,807*
Hedging derivatives							427	20,724	21,151
Financial liabilities at amortised cost - Debt securities	3,351	3,946	2,876	5,614	1,899	2,333	56	16	20,091
Financial liabilities at amortised cost - Interbank borrowings and deposits(1)	256	4,325	0	1	207	85	(1)	0	4,873
Financial liabilities at amortised cost - Customer borrowings and deposits(1)	0	9,563	17,851	28,834	10,938	0	393	380	67,960
Fair value revaluation of portfolio hedge								13	13
Subordinated debts	0	106	0	0	19	0	0	0	126
Accruals and other liabilities	2	310	21	11	33	34	0		411
Continuing operations - subtotal financial liabilities used to calculate the gap	*3,609*	*18,254*	*20,785*	*34,471*	*13,891*	*2,452*	*1,448*	*31,588*	*126,497*
Non-financial liabilities						411			411
TOTAL CONTINUING OPERATIONS	**3,609**	**18,254**	**20,785**	**34,471**	**13,891**	**2,863**	**1,448**	**31,588**	**126,908**
Activities held for sale : financial liabilities included in disposal groups held for sale - used to calculate the gap		726	2,929	5,222	6,671	1,235	518	6,746	24,048
Non financial liabilities - activities held for sale						7			7
TOTAL	**3,609**	**18,979**	**23,714**	**39,693**	**20,562**	**4,106**	**1,966**	**38,333**	**150,963**

(1) Received cash collaterals are declared in undetermined maturity

Net liquidity gap as at 31/12/2018 (in EUR million)	Demand	3 months to 1 year	Over 5 years	1 to 5 years	Over 5 years	Undetermined maturity
Liquidity gap as at 31/12/2018 - continuing operations	(2,071)	(8,234)	(16,489)	(23,006)	39,521	22,756
Liquidity gap as at 31/12/2018 - activities held for sale	98	(453)	(2,458)	(3,376)	5,478	877
NET LIQUIDITY GAP AS AT 31/12/2018	(1,973)	(8,687)	(18,947)	(26,382)	44,999	23,633

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 Group's liquidity

Steps taken to improve Dexia Group's liquidity are described in the Management Report, chapter "Information on capital and liquidity".

7.7. Currency risk

We also refer to Management Report, chapter Risk Management.

Classification by original currency (in EUR million)	31/12/2017						
	EUR	GBP	Other EU currencies	USD	JPY	Other currencies	Total
Total assets	122,020	23,475	68	22,933	6,893	5,550	180,938
Total liabilities and shareholders' equity	123,386	22,402	41	25,569	5,036	4,505	180,938
NET BALANCE SHEET POSITION	**(1,366)**	**1,074**	**26**	**(2,637)**	**1,857**	**1,046**	**0**

Classification by original currency (in EUR million)	31/12/2018						
	EUR	GBP	Other EU currencies	USD	JPY	Other currencies	Total
Total assets	97,454	20,506	11	35,161	3,421	2,251	158,804
Total liabilities and shareholders' equity	97,779	20,565	11	34,953	3,478	2,018	158,804
NET BALANCE SHEET POSITION	**(325)**	**(59)**	**0**	**208**	**(57)**	**234**	**0**

7.8. Hedge accounting

Derivatives Held for Risk Management and Hedge Accounting

Dexia 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 has recourse to hedge accounting when hedging specified financial assets or financial liabilities ("micro hedge") or portfolios of fixed rate financial assets and portfolios of fixed rate financial liabilities ("macro hedge") which are exposed to a change in fair value due to movements in benchmark interest rates.

The fair value of fixed rate bonds (asset side) and issuances (liability side) are commonly hedged at inception using derivatives, documented as Fair Value Hedge (FVH).

The residual interest rate risk exposure is notably linked to portfolios composed of long-dated amortizing fixed rate loans of small notional amounts. It is managed from a macro-hedge perspective, through a natural hedge between fixed rate assets and liabilities, and using interest rate derivatives, documented as portfolio Fair Value Hedges under IAS 39 "carve-out" standard as adopted by the European Union ("European Portfolio Hedge", "EPH").

Dexia 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 using cross currency swaps documented as Cash Flow Hedges (CFH) of foreign currency risk.

Moreover, some Fair Value Through P&L (FVTPL) assets are economically hedged by derivatives which are classified as Held for trading derivatives under IFRS but included in the banking book for prudential reporting (economic hedge). These are mainly derivatives which are hedging non SPPI financial assets classified at FVTPL under IFRS 9 and are no longer eligible as hedging instruments contrary to the treatment based on the classification of these assets under IAS 39. The volatility related to the interest risk of these assets is offset by the change in the fair value of the economic hedging derivatives but the volatility related to other risks and particularly credit risk remains.

As permitted by the transitional provisions of IFRS 9, Dexia 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 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. The interest rate risk component is determined as the change in fair value of the fixed rate balance sheet items arising solely from changes in benchmark interest rate curves. Such changes are usually the largest component of the overall change in fair value.

A derivative designated as a hedging instrument must be highly effective both prospectively and retrospectively in offsetting changes in fair value or cash flows arising from the hedged risk. The effectiveness of the hedge is verified by comparing changes in fair value of the hedged items attributable to changes in the hedged benchmark rate of interest with changes in the fair value of derivatives, with the expected ratio between the two changes ranging from 80% to 125%.

The non-effective portion of the hedging relationship recognised in "Net result of hedge accounting" (see note 5.3. "Net gains (losses) on financial instruments at fair value through profit or loss") is mainly related to the difference in the discounting between the hedged item and the hedging instrument, as interest rate swaps are discounted using Overnight Index swaps (OIS) discount curves, while balance sheet item discounting is based on the benchmark interest rate documented in fair value hedge.

Changes in the fair value of derivatives in respect of Credit Valuation Adjustment (CVA), Debit Valuation Adjustment (DVA) and Funding Valuation Adjustment (FVA) are booked in the result of trading activities (see note 5.3. "Net gains (losses) on financial instruments at fair value through profit or loss").

(ii) Cash Flow Hedge of Interest Rate Risk and balance sheet items in foreign currencies

Dexia 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's foreign currency exposure;
- Or to transform EUR floating rate cash flows into EUR fixed rate cash flows. Dexia 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 demonstrates the highly probable nature of forecast cash flows.

(iii) Macro-hedging of Interest Rate Risk through European Portfolio Hedge (EPH)

Dexia 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 as qualifying hedged items. Only vanilla interest rate swaps are used as hedging instruments.

Dexia 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 adjusts when needed the existing strategies by removing hedging instruments or by entering into new derivatives designated in EPH.

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

1. Detail of derivatives designated as fair value hedges

	31/12/2018			
	Notional amount	Assets - Carrying amount	Liabilities - Carrying amount	Change in fair value used for calculating hedge ineffectiveness
(in EUR million)		Hedging derivatives	Hedging derivatives	
Interest rate derivatives	**73,522**	**917**	**18,808**	**1,313**
OTC options	34		4	1
OTC other	73,488	917	18,803	1,313
Foreign exchange derivatives	**6,412**	**66**	**758**	**(44)**
OTC other	6,412	66	758	(44)
TOTAL	**79,934**	**983**	**19,565**	**1,269**

2. Detail of derivatives designated as cash flow hedges

	31/12/2018			
	Notional amount	Assets - carrying amount	Liabilities - carrying amount	Change in fair value used for calculating hedge ineffectiveness
(in EUR million)		Hedging derivatives	Hedging derivatives	
Interest rate derivatives	**1,099**	**15**	**225**	**51**
OTC other	1,099	15	225	51
Foreign exchange derivatives	**873**	**190**	**353**	**68**
OTC other	873	190	353	68
TOTAL	**1,972**	**206**	**578**	**118**

	31/12/2018
Amount removed from equity and included in the carrying amount of a non-financial instrument (in case of a cash flow hedge on a highly probable transaction)	Nil

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

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

4. Detail of derivatives designated as hedges of a net investment in a foreign entity

Nil.

b. Hedged items by risk category for each type of hedge - continuing operations

1. Fair value hedges

	31/12/2018			
(in EUR million)	Carrying amount of the hedged item	Accumulated amount of hedge adjustments included in the carrying amount of assets/ liabilities	Change in value of the hedged item used as the basis for recognising hedge ineffectiveness	Remaining adjustments for discontinued hedges
Financial assets at fair value through OCI	2,768	476	(509)	517
Interest rate risk	*2,768*	*476*	*(509)*	*517*
Financial assets at amortised cost - Debt securities	35,887	11,081	(280)	23
Interest rate risk	*35,870*	*11,079*	*(280)*	*23*
Foreign exchange risk	*18*	*2*		
Financial assets at amortised cost - Interbank loans and advances	111	13	(3)	
Interest rate risk	*111*	*13*	*(3)*	
Financial assets at amortised cost - Customer loans and advances	12,162	4,382	(590)	
Interest rate risk	*12,162*	*4,382*	*(590)*	
Debt securities	44,149	380	(21)	
Interest rate risk	*44,149*	*380*	*(21)*	
TOTAL (FINANCIAL ASSETS LESS FINANCIAL LIABILITIES)	6,779	15,572	(1,361)	540

2. Cash flow hedges

	31/12/2018		
(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
Financial assets at fair value through OCI	(43)	(2)	
Foreign exchange risk	*(43)*	*(2)*	
Financial assets at amortised cost - Debt securities	(4)	(140)	
Foreign exchange risk	*(4)*	*(140)*	
Financial assets at amortised cost - Interbank loans and advances	(3)	(112)	49
Interest rate risk	*6*	*59*	
Foreign exchange risk	*(9)*	*(171)*	*49*
Interbank borrowings and deposits	28	(150)	
Interest rate risk	*19*	*(171)*	
Foreign exchange risk	*9*	*21*	
Customer borrowings and deposits	36	(166)	
Interest rate risk	*36*	*(166)*	
TOTAL (FINANCIAL ASSETS LESS FINANCIAL LIABILITIES)	(113)		
TOTAL		(572)	49

3. Net investment hedge

Nil.

4. Portfolio fair value hedge of interest rate risk

	31/12/2018
(in EUR million)	Carrying amount of the hedged item
Financial assets at fair value through OCI	590
Financial assets at amortised cost - Interbank loans and advances	5,423
Financial assets at amortised cost - Customer loans and advances	672
Interbank borrowings and deposits	98
Debt securities	409

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

1. Derivatives designated as fair value hedges

	31/12/2018			
	Maturity			
(in EUR million)	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Interest rate derivatives				
* Notional amount (in EUR million)	3,927	4,986	25,904	38,705
* Average fixed interest rate	1.97%	0.65%	1.44%	3.47%
Foreign exchange derivatives				
* Notional amount (in EUR million)	25		1 446	4 941
* Average EUR-USD exchange rate			1.2250	1.2591
* Average EUR-JPY exchange rate			108.7784	160.9227
* Average USD-JPY exchange rate			116.6120	115.5224
* Average USD-GBP exchange rate				0.5600
* Average fixed interest rate	1.29%		2.64%	3.29%

2. Derivatives designated as cash flow hedges

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

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

1. Fair value hedges

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

2. Cash flow hedges

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

3. Net investment hedge

Nil.

8. Segment and geographic reporting

a. Segment reporting

Having completed its commercial entity disposal programme at the beginning of 2014 as required under the resolution plan, Dexia is now focused on managing its residual assets in run-off, protecting the interests of the Group's State shareholders and guarantors. In line with the Group's profile and strategy, Dexia's performance is now shown at a consolidated level on the basis of a single division entitled "Management of activities in run-off", without specific allocation of funding and operating expenses by segment of activity.

b. Geographic reporting

(in EUR million)	Belgium	France	Spain	Ireland	Italy	United States	Israel	Others	Total
As at 31 December 2017									
NET BANKING INCOME	**29**	**(16)**	**33**	**(103)**	**36**	**(62)**	**20**	**(60)**	**(123)**
As at 31 December 2018									
NET BANKING INCOME	**(9)**	**(88)**	**17**	**(17)**	**(60)**	**(63)**	**0**	**(12)**	**(232)**

Geographic reporting is done based on booking centers, being the country of the company having recorded the transaction and not the country of the counterparty at the transaction.
As a consequence, as at 31 December 2018, there aren't any longer figures presented for net banking income in Israel following the exit of Dexia Israel from the scope of consolidation.
Also, as Dexia Kommunalbank Deutschland is a discontinued operation, in application of the standard IFRS 5, its results don't contribute any longer to the net banking income and figures 2017 were restated. This explains why Germany is not reported any longer in the geographic reporting.

Report of the board of auditors to the shareholders' meeting of Dexia SA for the year ended 31 December 2018 - Consolidated financial statements

In the context of the statutory audit of the consolidated financial statements of Dexia SA ("the company") and its subsidiaries (jointly "the group"), we hereby submit our statutory audit report of the board of auditors. This report includes our report on the consolidated financial statements and the other legal and regulatory requirements. These parts should be considered as integral to the report.

We were appointed in our capacity as statutory auditor by the shareholders' meeting of 17 May 2017, in accordance with the proposal of the board of directors issued upon recommendation of the audit committee and presentation of the works council. Our mandate will expire on the date of the shareholders' meeting deliberating on the financial statements for the year ending 31 December 2019. Deloitte Réviseurs d'Entreprises / Bedrijfsrevisoren has performed the audit of the consolidated financial statements of Dexia SA for 11 consecutive periods. Mazars Réviseurs d'Entreprises / Bedrijfsrevisoren has audited the consolidated financial statements of Dexia SA for 2 consecutive periods.

Report on the consolidated financial statements

Unqualified opinion

We have audited the consolidated financial statements of the group, which comprise the consolidated balance sheet as at 31 December 2018, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and the statement of cash and cash equivalents as well as the summary of significant accounting policies and other explanatory notes. The consolidated statement of financial position shows total assets of 158 804 million EUR and the consolidated income statement shows a consolidated net loss (group share) for the year then ended of 473 million EUR.

In our opinion, the consolidated financial statements give a true and fair view of the group's net equity and financial position as of 31 December 2018 and of its consolidated results and its consolidated cash flow for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for the unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISA), as applicable in Belgium. In addition, we have applied the International Standards on Auditing approved by the IAASB applicable to the current financial year, but not yet approved at national level. Our responsibilities under those standards are further described in the "Responsibilities of the statutory auditor for the audit of the consolidated financial statements" section of our report. We have complied with all ethical requirements relevant to the statutory audit of consolidated financial statements in Belgium, including those regarding independence.

We have obtained from the board of directors and the company's officials the explanations and information necessary for performing our audit.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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.

Key audit matters	How our audit addressed the key audit matters
Description key audit matter 1 - 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 note 1.5 in the notes to the Consolidated Financial Statements)*	
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 2018, is based amongst others on the following assumptions: • in its latest semestrial update, the business plan is based on observable market data as of 30 June 2018. • the underlying macro-economic assumptions to the business plan are reviewed as part of the semi-annual reviews of the orderly resolution plan, which also include a review of the latest observable market data and a review of the latest accounting standards and regulatory developments. The latter includes, in its latest update, amongst other the non-renewal, as from 1 January 2019, of the specific approach applied by the European Central Banks for the supervision of the Dexia Group; • the business plan assumes the preservation of the banking licenses of the different entities composing the Group and of the credit rating of Dexia Credit Local; • the continuation of the resolution plan assumes that the 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; • discussions are occurring between the European Commission and the Belgian and French States, on the renewal of the States guarantee beyond 31 December 2021; • 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 the business plan; • finally, the Group is exposed to certain operational risks, inherent to the context of the resolution in which it is operating. As of today uncertainties remain about the realization of the business plan supporting the ability to continue as a going concern for the Dexia Group. Consequently, we consider the ability to continue as a going concern used for the preparation of the financial statements as a key audit matter.	We have examined the latest evaluation made by the Executive Committee and the Board of Directors of the Dexia Group of the going concern principle for a period of twelve months starting at the closing date of the exercise, as prescribed by IAS 1 – Presentation of Financial Statements, as well as the elements used to justify the evaluation and the underlying documentation: We have applied, amongst other, the diligences prescribed by IAS 570 "Going Concern": • we have assessed the elements on which the liquidity projections were estimated, supporting the business plan on a reasonable time horizon, based on the related documentation prepared by Dexia Group and on inquiries of management. • we have considered the main regulatory ratios as of 31 December 2018 (Liquidity Coverage Ratio, Common Equity Tier 1) in light of the requirements applicable to the Dexia Group. • we have assessed the compliance with the legal and regulatory requirements of the available information on the going concern assumption presented in the notes to the Consolidated Financial Statements.We have inquired the Executive Committee and Board of Directors regarding the latest underlying assumptions to the revised business plan, based on end of June 2018 data and presented to the Board of Directors on 19 December 2018. As mentioned in note 1.1.1.1, as of today, uncertainties exist on the realization of this business plan, besides the macro-economic factors, that are amongst other related to: – the conditions to access the facilities of the Eurosystem financing facilities after 2021; – the renewal of the States/ shareholders' guarantee beyond 2021, on which the States guarantors-shareholders have started discussions. We have been made aware of the notification on 25 February 2019 by the States to the European Commission of a project of a new guarantee, which is still being discussed and is subject to the validation procedures in Belgium and in France, and which is ultimately subject to an agreement between Dexia and the two States; – the future organizational structure of the Dexia group. • we have considered the quarterly reports on the (i) financing strategy and (ii) operational continuity, established by the Dexia Group as requested by the European Central Bank. Finally, we have examined the compliance with the legal and regulatory requirements of the information related to the going concern in the notes of the consolidated financial statements.

Key audit matters	How our audit addressed the key audit matters
Description key audit matter 2 – Operational risks linked to the information systems (We refer to the note 1.4 in the notes to the Consolidated Financial Statements.)	
Dexia is dependent, for its operational activities, on the reliability and security of its information systems. The activity of the Group is also seen in the specific context of the management of the existing assets portfolios in rundown, in the context of the orderly resolution plan validated by the European Commission on 28 December 2012. With this background and to ensure operational continuity, Dexia Credit Local has outsourced its IT function (development, production and infrastructure) to an external service provider as of 1st November 2017. Dexia Credit Local, during 2018, has also decided to outsource the upgrade and management of the IT infrastructure to the same service provider. In this specific context, the management of operational risk linked to the performance of the information systems, and to the automated treatment of accounting and finance data is considered as a key audit matter.	The assessment of the general IT controls used throughout the accounting and financial data-flow chain is a key step in our audit approach. The audit work performed at the external service provider with the assistance of our IT specialists consisted more specifically of: • understanding the structure of the IT landscape and the processes and controls related to the production of the accounting and financial information; • examined the way Dexia handled the impacts of IT incidents that occurred during the accounting period and the related corrective actions implemented; • assessing (i) 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 (ii) the key automated controls on significant information systems (mainly the credit and market applications, accounting, consolidation, automated reconciliation between the management data and acconting 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 supervion framework currently being developed by Dexia Credit Local related to the services rendered by the external service provider in the context of the outsourcing. Finally, we have reviewed the information presented in the notes to the Consolidated Financial Statements related to the operational risks with relation to the information systems

Key audit matters	How our audit addressed the key audit matters
Description key audit matter 3 – First time application impact of IFRS 9 – "Financial Instruments" *(We refer to the notes 1.1.2.1, 1.1.6 and 1.6 in the notes to the Consolidated Financial Statements.)*	
The Dexia Group has applied, as from 1 January 2018, the IFRS 9 standard « Financial Instruments »which introduces significant changes around classification, measurement and impairment of financial assets. The first time application of IFRS 9 led Dexia Group to recognize a positive net impact of 2 719 million EUR in the equity, to publish an opening balance sheet as of 1 January 2018, and to disclose detailed information on the transition of the balance sheet as of 31 December 2017 in accordance with IAS 39 to the opening balance sheet as of 1 January 2018 in accordance with IFRS 9. The determination of these impacts and the detailed information take into consideration the orderly resolution plan of the Dexia Group, approved by the European Commission on 28 December 2012, and in consequence its underlying assumptions. New operational processes have been defined to consider this new accounting principle Considering (i) the complexity of the implementation, (ii) the judgements applied, amongst others in the determination of the Business Model to determine the classification of the assets, as well as the calculation of the impairments based on the expected credit losses, and (iii) the significance of the published information, we consider that the determination of the impacts from the first time application of IFRS 9 as well as the related published information constitute a key audit matter.	We have assessed the processes set-up by Dexia Group for the application of this new standard. We have worked with our specialists for the assessment of the analysis and of the models used by Dexia Group for the application of the new IFRS 9 accounting standards. We have amongst others used our specialists to perform the review of the changes in the information systems allowing the operational implementation of the new accouting standard.On the classification and measurement, our audit work consisted of: • reviewing the analysis performed, the factual elements supporting the accounting principles defined and applied by Dexia Group in terms of business models of each homogenous portfolio of assets and contractuals caracteristics of financial instruments; • assessing the consistent application of the accounting choices throughout all entities of the Group; • testing, based on a sample of contracts, the accuracy of the analysis done by Dexia Group; • assessing the valuation models of the financial assets classified at fair value though other operating income (equity) or at fair value through profit and loss On the impairment, our audit work consisted of: • assessing the compliance of the principles applied by Dexia Group with IFRS 9 and the methodologies applied throughout all entities of the Group; • assessing, based on sample of models for calculation of impairment parameters, their correct implementation in the IT systems and their related financial reporting framework; • assessing the correct application of the criteria for the assessment of the increase in credit risk for the classification of the financial instruments in each of the respective three stages; • performing independent counter-valuation of impairments. We have reviewed the accuracy of the consolidated information published in the notes to the Consolidated Financial Statements related to the impacts of the first time application of IFRS 9.

Key audit matters	How our audit addressed the key audit matters
Description key audit matter 4 - Assessment of credit risk and evaluation of impairments *(We refer to the notes 1.1.6.2.5, 2.4 to 2.7, 3.6, 5.10 and 7.2 in the notes to the Consolidated Financial Statements.)*	
As from 1 January 2018, the impairments recorded by Dexia Group 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, stage 2 or stage 3 based on the expected time and probability of losses' occurrence; • assessing the level of credit risk and the existence of impairment indicator for the classification of the exposures in stage 3. • estimating for each bucket the amount of expected losses • setting up macro-economic projections to be integrated at the same time in the cirteria used for the increase in credit risk and forthe measurement of expected losses. As of 31 December 2018, the gross amounts exposed to credit risk amounts to 123 643 million euros; the total impairments amounts to 649 million euros and the Group's cost of risk is positive and amounts to 128 million euros. We have considered the assessment of the level of credit risk as a key audit matter considering Management's judgement and estimates for determining the correct classification of the exposures within the different stages and the amount of recorded impairments.	We have assessed the design and implementation Dexia Group's internal control framework on the credit risk and have tested the operating effectiveness of the key controls related to the assessment of credit risk and evaluation of expected losses. Our procedures included among others the following processes: • exposures' classification per stage: we have assessed (i) the adequacy and the correct application of withheld indicators to measure significant increase in credit risk and (ii) the existence of impairment indicator; • evaluation of expected losses (stages 1, 2 and 3): – with the assistance of our specialists in charge of the credit risk, we have validated the Dexia Group's retained methodologies for the determination of the parameters of the impairment calculation, their correct operational implementation in the information systems and the effectiveness of the key controls regarding data quality; – for the specific impairments on financial assets classified in stage 3, we have verified the occurrence of a periodical credit risk review by Dexia Group and have assessed based on samplings, the management assumptions and data used for the estimation of impairments. We have also examined the information presented in the notes to the Consolidated Financial Statements and particularly the new information required by the implementation of IFRS9.

Key audit matters	How our audit addressed the key audit matters
Description key audit matter 5 – Identification and evaluation of the provisions for legal risk related to litigations *(We refer to note 3.6 Provisions in the notes of the Consolidated Financial Statements and to the litigation section in the caption "Risk Management" of the Management Report which is referred to with the note 3.6 where the Board of Directors describes the main litigations that the Group Dexia is facing)*	
In the context of its activities, the Dexia Group is involved in a certain number of legal risks and litigations. The consequences, as assessed by the Group based on the available information at closing date, of the main litigations, including those related to the 'share leasing' activities in the Netherlands and the investigations with a potential significant outlook on the financial situation, on the results or on the assets of the Group, are reflected in the Consolidated Financial Statements. The Group complies with the requirements of IAS 37 for the evaluation and recording of provisions for certain risks. The recording of a provision or contingent liability in order to cover the legal risk requires by nature the use of professional judgment due to the difficulty to estimate the outcome of litigations that may arise. Due to the nature of the current procedures against the Dexia Group and given the use of estimation in the determination of the provisions, we consider the legal risk related to litigations as a key audit matter.	We have assessed the adequacy of the internal control system and tested the operating effectiveness of key controls related to the process of determining the provisions for litigation. These controls mainly concern the identification of the files to be provisioned based on the motives of the dispute and the determination of the amount of the provisions estimated using the methodologies retained by the Dexia Group. Our audit work has focused on the following: • we have conducted discussion with the management and more specifically the Dexia Group's legal department; • we have examined the motives for the current disputes and have assessed the adequacy of the existence of provisions based on the Group's assumptions; • we have assessed the principles and assumptions used by the Group to estimate the amount of provisions for litigations; • we have inquired with the law firms with which Dexia is working to obtain and review the assessment made by these lawyers on the status of the litigations; • finally, we have examined the information in the note 3.6 of the Consolidated Financial Statements for provisions.

Key audit matters	How our audit addressed the key audit matters
Description key audit matter 6 – Valuation of the financial instruments classified in level 2 and level 3 in the fair value hierarchy *(We refer to the notes 1.1.7.1, 1.1.7.2, 2.3, 2.4, 3.1, 4.1, 5.3, 5.4 and 7.1 in the notes to the Consolidated Financial Statements)*	
In conducting its market activities, Dexia holds financial instruments classified in level 2 and 3 in the fair value hierarchy. These instruments are recorded at fair market value based on valuation models, including (level 3) or not (level 2) significant parameters which are either unobservable or cannot be corroborated directly with market data. The fair values calculated may be subject to additional value adjustments to take into account certain market, liquidity and counterparty risks, including for the derivatives: • Credit Value Adjustment (CVA): takes into account the risk of default of the counterparty; • Debit Value Adjustment (DVA): takes into account the own credit risk of Dexia; • Funding Value Adjustment (FVA): takes into account the financing costs for the non-collateralized derivatives; and • the use of an actualization curve based on a daily rate curve (OIS). The methods used by Dexia to value the financial instruments, as well as the estimation of the fair value adjustments, include a significant part of professional judgment regarding the defined methodologies, the choice of valuation parameters and the fair value adjustments, as well as the use of internal valuation models. These financial instruments classified in Level 2 and 3 in the fair value hierarchy in note 7.1 of the notes represent 120 837 million euros of the assets and 150 286 million euros of the liabilities of the consolidated balance of the Group as at 31 December 2018. Due to the substantial outstanding amounts and the significant use of professional judgment in the estimation of the fair value, we have assessed that the evaluation of the financial instruments classified in level 2 and 3 is a key audit matter.	We have assessed the relevance of the key controls, defined and implemented by Dexia in the context of the valuation of financial instruments classified in level 2 and 3 including those relating to: • the financial instruments' classification methodology in the fair value hierarchy as defined by IFRS 13 and its periodical backtesting process; • the assessment of uncertainty risk on the valuation linked to the use of valuation models: we have verified the existence of a models' cartography and have assessed the documentation of the quantification of the uncertainty risk related to the use of these models; • the independent verification of the valuation parameters: we have amongst others analyzed the relevance of the data sources used in accordance with the general principles of a Mark-to-Market valuation and we have assessed the respect of the hierarchy of these sources; • the estimation of fair value adjustments: we have assessed amongst others the relevance of the methodologies used, conducted an analytical review of the impacts and examined the reconciliation with the accounting data. We have relied on our valuation experts to perform, based on a sample basis: • an analysis of Dexia's own assessment of the calculation of uncertainty risk related to the use of valuation models; • an analysis of the relevance of the valuation parameters withheld; • the independent validation of valuation by using our own models. We have assessed the design of the tool used for the calculation and exchange of collaterals on financial derivatives and we have analyzed the main differences in valuations with the counterparties for these instruments in order to comfort our assessment of the reliability of Dexia's valuations. Finally, we have examined the information included in the notes to the Consolidated Financial Statements regarding the valuation of financial instruments in the context of the requirements of IFRS 13.

Key audit matters	How our audit addressed the key audit matters
Description key audit matter 7 – Documentation and effectiveness of the hedging relationships *(We refer to the notes 1.1.10, 1.1.11, 4.1, 5.3 and 7.8 in the notes to the Consolidated Financial Statements)*	
In conducting its financing activities, Dexia has set-up a risk management policy designed to cover the risk of change in fair value or change in cash-flows of its assets and liabilities by using hedging derivatives. The designation of a hedging relationship is defined by IAS 39 - Financial Instruments: Recognition and Measurement, and in particular the following conditions must be met: • the documentation of the characteristics of the hedged item, of the hedging instrument, and of the type of hedging relationship designated; • the justification of the use of hedge accounting by the performance of efficiency quantitative and qualitative testings supporting the hedging relationship. As of 31 December 2018, the outstanding hedging derivatives amount on the assets side to EUR 1 263 million and EUR 21 151 million on the liabilities. The net loss of the hedge accounting amounts to 87 million euros. Due to the significant impacts in the Consolidated Financial Statements of Dexia, we consider the documentation and effectiveness of the hedging relationships as a key audit matter.	We have assessed the relevance of the internal control system and the governance related to the documentation and the effectiveness testing of the hedging relationships. In our audit work we have focused on: • the documentation of the hedging relationships; • the identification of the hedged portfolios and hedging instruments; • the process to perform the effectiveness tests supporting the hedging relationships designated over time and the recording of the ineffectiveness; • the principles of derecognition of hedging relationships. Our work on the outstanding relationships at closing date focused on the following: • the reconciliation of the outstanding amounts per management accounting with the outstanding amounts per financial accounting; • the critical review of the effectiveness tests and the recording of the related inefficiency; • the analytical review of the OIS/BOR ineffectiveness variation over the accounting year. In addition, we have assessed if the methodology applied by Dexia complies with the IFRS standards on the accounting treatment of hedging relationships when a sale of a hedged instrument occurs. We have also assessed the accounting impacts related to the termination of hedging relationships or allocation of hedging instruments to new relationships. Finally, we have examined the information included in the notes of the Consolidated Financial Statements relating to the risks arising from the hedging relationships on behalf of Group's entities in the context of the IFRS requirements.

Responsibilities of the board of directors for the preparation of the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the board of directors is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters to be considered for going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the group or to cease operations, or has no other realistic alternative but to do so.

Responsibilities of the statutory auditor for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a statutory auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA 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.
During the performance of our audit, we comply with the legal, regulatory and normative framework as applicable to the audit of consolidated financial statements in Belgium.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
• identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from an error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
• obtain 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 group's internal control;
• evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors;
• conclude on 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 group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our statutory auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our statutory auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern;
• evaluate the overall presentation, structure and content of the consolidated financial statements, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
• obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and we communicate with them about all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes any public disclosure about the matter.

Other legal and regulatory requirements

Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements, the statement of non-financial information attached to the directors' report on the consolidated financial statements and other matters disclosed in the annual report on the consolidated financial statements.

Responsibilities of the statutory auditor

As part of our mandate and in accordance with the Belgian standard complementary (revised in 2018) to the International Standards on Auditing (ISA) as applicable in Belgium, our responsibility is to verify, in all material respects, the director's report on the consolidated financial statements, the statement of non-financial information attached to the directors' report on the consolidated financial statements and other matters disclosed in the annual report on the consolidated financial statements, as well as to report on these matters.

Aspects regarding the directors' report on the consolidated financial statements and other information disclosed in the annual report on the consolidated financial statements

In our opinion, after performing the specific procedures on the directors' report on the consolidated financial statements, this report is consistent with the consolidated financial statements for that same year and has been established in accordance with the requirements of article 119 of the Companies Code.

In the context of our statutory audit of the consolidated financial statements we are also responsible to consider, in particular based on information that we became aware of during the audit, if the directors' report on the consolidated financial statements is free of material misstatement, either by information that is incorrectly stated or otherwise misleading. In the context of the procedures performed, we are not aware of such material misstatement.

The non-financial information as required by article 119, § 2 of the Companies Code, has been disclosed in the the directors' report on the consolidated financial statements under section "Non-financial declaration – Corporate social responsibility" that is part of the annual report. This non-financial information has been established by the Dexia Group in accordance with the law of 3 September 2017 related to the publication of non-financial information and information on diversity by large corporates and groups, which transposes Directive 2014/95/EU. In accordance with article 144, § 1, 6° of the Companies Code we do not express any opinion on the question whether this non-financial information has been established in accordance withabove mentioned law.

Statements regarding independence

- Our audit firms have not performed any prohibited services and our audit firms have remained independent from the Group during the performance of our mandate.
- The fees for the additional non-audit services compatible with the statutory audit, as defined in article 134 of the Companies Code, have been properly disclosed and disaggregated in the notes to the consolidated financial statements.

Other statements

This report is consistent with our additional report to the audit committee referred to in article 11 of Regulation (EU) No 537/2014.

Zaventem and Bruxelles, 10 April 2019

The Board of Auditors

DELOITTE Réviseurs d'Entreprises
SCRL/CVBA
Represented by Yves Dehogne

MAZARS Réviseurs d'Entreprises
SCRL/CVBA
Represented by Xavier Doyen

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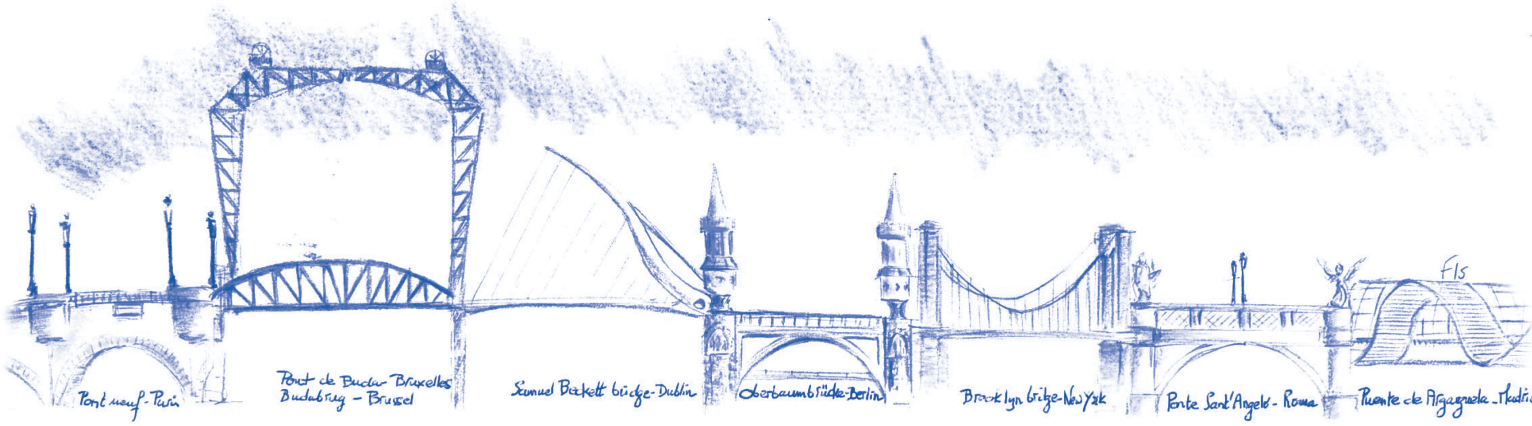

Annual financial statements as at 31 December 2018

Balance sheet
(before income appropriation)

ASSETS (in EUR)		31/12/2017	31/12/2018
FIXED ASSETS		**2,345,636,359**	**2,343,422,882**
II.	Intangible fixed assets	303,915	150,664
III.	Tangible fixed assets	182,663	129,319
	B. Plant, machinery and equipment	8,212	5,683
	C. Furniture and vehicles	156,720	110,728
	E. Other tangible fixed assets	17,731	12,908
IV.	Financial fixed assets	2,345,149,781	2,343,142,899
	A. Affiliated enterprises	2,343,141,349	2,343,141,349
	1. Participating interests	2,343,141,349	2,343,141,349
	C. Other financial assets	2,008,432	1,550
	1. Shares	2,001,000	-
	2. Amounts receivable and cash guarantees	7,432	1,550
CURRENT ASSETS		**774,277,976**	**755,601,493**
V.	Amounts receivable after more than one year	107,391,744	106,184,228
	B. Other amounts receivable	107,391,744	106,184,228
VII.	Amounts receivable within one year	6,728,684	2,663,093
	A. Trade debtors	2,899,460	827,220
	B. Other amounts receivable	3,829,224	1,835,873
VIII.	Current investments	642,428,823	644,064,295
	B. Other investments and deposits	642,428,823	644,064,295
IX.	Cash at bank and in hand	16,741,442	1,786,191
X.	Deferred charges and accrued income	987,283	903,686
TOTAL ASSETS		**3,119,914,335**	**3,099,024,375**

SHAREHOLDERS' EQUITY AND LIABILITIES (in EUR)		**31/12/2017**	**31/12/2018**
EQUITY		**2,994,884,720**	**2,986,155,120**
I.	Capital	500,000,000	500,000,000
	A. Issued capital	500,000,000	500,000,000
II.	Share premium account	1,900,000,000	1,900,000,000
IV.	Reserves	322,880,172	322,880,172
	A. Legal reserve	50,000,000	50,000,000
	D. Available reserves	272,880,172	272,880,172
V.	Retained earnings	261,451,730	272,004,548
V. bis.	Profit (+) / loss (-) for the year [1]	10,552,818	(8,729,600)
PROVISIONS AND DEFERRED TAXES		**64,066,187**	**62,493,188**
VII.	A. Provisions for liabilities and charges	64,066,187	62,493,188
	2. Fiscal charges	4,000,000	4,000,000
	4. Other liabilities and charges	60,066,187	58,493,188
AMOUNTS PAYABLE		**60,963,428**	**50,376,067**
VIII.	Amounts payable after more than one year	39,788,000	39,788,000
	A. Financial liabilities	39,788,000	39,788,000
	1. Subordinated loans	39,788,000	39,788,000
IX.	Amounts payable within one year	20,705,683	10,164,358
	C. Trade debts	2,578,095	2,793,764
	1. Suppliers	2,578,095	2,793,764
	E. Taxes, remuneration and social security	2,547,678	2,661,170
	1. Taxes	409,543	566,609
	2. Remuneration and social security	2,138,135	2,094,561
	F. Other amounts payable	15,579,910	4,709,424
X.	Accrued charges and deferred income	469,745	423,709
TOTAL LIABILITIES		**3,119,914,335**	**3,099,024,375**

(1) See note 1 to the financial statements

Off-balance-sheet items

(in EUR)	**31/12/2017**	**31/12/2018**
Miscellaneous rights and commitments		
Guarantee given by the French and Belgian States for the Finanial Products portfolio [1]	PM	PM
Guarantees given by third parties on behalf of the company	302,973	302,973
Real guarantees given on own assets	150,308,453	308,690
Issuance of beneficiary participations	PM	PM
Commitment to issue shares linked to stock options (exercise price)	109,291,375	-
Commitment towards Dexia Bank Nederland NV	PM	PM
Commitments others [2]	PM	PM

(1) See note 4.4.C of the consolidated financial statement.
(2) See note 4.4. Off-balance-sheet items - Commitments.

Income Statement

(in EUR)		31/12/2017	31/12/2018
I.	Operating income	33,374,743	8,975,259
	D. Other operating income	13,933,557	8,492,170
	E. Non-recurring operating income	19,441,186	483,089
II.	Operating charges	(29,097,488)	(26,613,818)
	B. Services and other goods	(15,297,999)	(14,583,653)
	C. Remuneration, social security costs and pensions	(9,371,122)	(9,032,401)
	D. Depreciation of and amounts written off on formation expenses, intangible and tangible fixed assets	(338,124)	(219,572)
	F. Provisions for liabilities and charges : Increase (-)	(150,836)	(150,838)
	G. Other operating charges	(1,133,457)	(242,833)
	I. Non-recurring operating charges	(2,805,950)	(2,384,521)
III.	Operating income (+) / loss (-)	4,277,255	(17,638,559)
IV.	Financial income	6,562,121	10,218,529
	A. Recurring financial income	4,125,298	10,218,529
	2. Income from current assets	332,833	270,908
	3. Other financial income	3,792,465	9,947,621
	B. Non-recurring financial income	2,436,823	0
V.	Financial charges	(1,110,124)	(693,629)
	A. Recurring financial charges	(543,736)	(630,901)
	1. Debt charges	(41,250)	(39,324)
	3. Other financial charges	(502,486)	(591,577)
	B. Non-recurring financial charges	(566,388)	(62,728)
VI.	Profit (+) / loss (-) for the period before taxes	9,729,252	(8,113,659)
VIII.	Income taxes	823,566	(615,941)
	A. Income taxes	(15,206)	(1,332,837)
	B. Adjustment of income taxes and write-back of tax provisions	838,772	716,896
IX.	Profit (+) / loss (-) for the period	10,552,818	(8,729,600)
XI.	Profit (+) / loss (-) to be appropiated	10,552,818	(8,729,600)
	Profit brought forward of the previous period	261,451,730	272,004,548
	Profit (+) / loss (-) for the period to be appropriated	10,552,818	(8,729,600)
	PROFIT TO BE APPROPRIATED	**272,004,548**	**263,274,948**

Notes to the annual financial statements

1. Presentation of the financial statements

Dexia presents its financial statements before appropriation. The 2018 financial year closed with a loss of EUR -8,7 million. The profit carried over from the previous period is EUR 272 million. As a result, the total profit to be appropriated is EUR 263,3 million.

2. Annual financial statements and chart of accounts

Dexia is a limited company and a financial company governed by the Belgian law whose capital is represented by 420.134.302 shares without designation of their nominal value, including 1.948.984 shares dematerialised or registered, identified by the code ISIN BE0974290224, traded on the Euronext Brussels market, and 418.185.318 other registered shares held by the Belgian and french States without any ISIN code, not negotiable on the Euronext market and not convertible in dematerialized shares.
Dexia is subject to the obligation to publish yearly financial statements as prescribed by the Belgian Company Code of 7 may 1999 and its Royal Decree of application dated 30 January 2001.
The chart of accounts conforms in its contents, presentation, and numbering with the chart of accounts described in the Royal Decree of 21 October 2018. The items included in the accounting plan that do not apply to Dexia have been excluded.
The financial statements are presented in EUR.

3. Accounting policies

3.1. General policies

3.1.1. LEGISLATION

The accounting policies are in conformity with the Royal Decree of 30 January 2001, in application of the Belgian Company Code. If legislation allows options or authorises a waiver, the accounting policies hereafter shall mention the option chosen or whether such a waiver has been applied.

3.1.2. FOREIGN CURRENCY TRANSLATION INTO EUR

Monetary assets, liabilities, rights and commitments denominated in foreign currencies are translated into EUR at the last day aver-age year-end exchange rate.

Non-monetary items are translated into EUR based at the exchange rate ruling in effect on the transaction date.
Foreign currency income and expense are translated into EUR at the exchange rate ruling in effect on the date on which the income or expense is recognised in the statement of income.

3.2. Assets

3.2.1. FORMATION EXPENSES (ITEM I.)

As from the accounting year 2012, all formation expenses are booked into charges for 100% during the period in which they are incurred.

3.2.2. INTANGIBLE FIXED ASSETS (ITEM II.)

License costs, external costs linked to software definition and to the development of the Dexia Group website are recorded as intangible fixed assets when the acquisition price is at least equal to EUR 1,000 per item or, when delivery is broken down into partial shipments representing less than EUR 1,000 each but the total delivery is at least EUR 1,000. Intangible fixed assets are depreciated over a maximum of five years.
Furthermore, the internal costs related to the development of software and the website are entirely charged in the financial year in which they are exposed.
Exceptional amortizations will be recorded in order to align the accounting value of the intangible fixed assets to their utilization value for the company to take into account their alteration or changes in economic or technological circumstances. Exceptional depreciations are reversed if they are no longer justified.

3.2.3. TANGIBLE FIXED ASSETS (ITEM III.)

If necessary, exceptional depreciations will be recorded in order to align the accounting value of fixed assets to their utilization value for the company to take into account their alteration or changes in economic or technological circumstances. Exceptional depreciations are reversed if they are no longer justified.

3.2.4. FINANCIAL ASSETS (ITEM IV.)

Participating interests and shares are recorded on the balance sheet at their acquisition cost or contribution cost. Accessory acquisition fees are charged to the period of acquisition.
Impairments are recorded in the case of capital losses or lasting depreciation. They are determined by reference to the financial position, profitability, and prospects of the company in which shares and/or equity interests are held.
Participating interests and shares may also be revalued. It is therefore required that their value, determined on the basis of their usefulness to the company, presents a certain and lasting surplus in relation to their book value.

Debts appearing under financial fixed assets are valued according to the same principles as debts at more than one year and up to one year.

3.2.5. AMOUNTS RECEIVABLE AFTER MORE THAN ONE YEAR AND WITHIN ONE YEAR (ITEMS V. AND VII.)

Receivables are stated on the balance sheet at their nominal value. Allowances are booked to cover any risk of non-recovery.

3.2.6. SHORT-TERM INVESTMENTS AND CASH ASSETS (ITEMS VIII. AND IX.)

Cash is stated at nominal value.
Securities are stated at acquisition cost, while accessorial acquisition costs are recorded in the statement of income of the year in which they are incurred.
At balance sheet date, impairments are recorded on short-term investments and liquid assets if their realization value is lower than their book value.
Additional impairments are recorded on these assets in order to reflect either a change in their realization or market value, or the risks inherent in the nature of the products concerned or the activities carried out.

3.3. Liabilities

3.3.1. REVALUATION GAINS (ITEM III.)

Shares and participating interests recorded as long-term investments may be revaluated in the case of a certain, permanent increase in their fair value for the company compared with their book value.
Revaluation gains are maintained under this heading until the realization of the assets concerned or their inclusion in capital.

3.3.2. PROVISIONS FOR LIABILITIES AND CHARGES (ITEM VII.)

At balance-sheet date, the Board of Directors, acting with prudence, sincerity and good faith, examines the provisions to be built up in order to cover all possible risks or losses that might have occurred during the financial year or previous financial years, and, in case of an obligation, the expected amount necessary to pay the debt on the balance sheet date. Provisions relating to previous financial years are regularly reviewed and reversed if they have become irrelevant.

3.3.3. DEBTS OF OVER ONE YEAR AND UP TO ONE YEAR (ITEMS VIII. AND IX.)

Debts are stated for their nominal value on the balance sheet.

3.4. Off-balance sheet items

Off-balance sheet items are recorded for the nominal value of the rights and commitments mentioned in the contract or for their estimated value.

4. Notes to the annual financial statements

Dexia is a cross-border holding company which has a permanent establishment in Paris, 1, passerelle des Reflets, Tour CBX– La Défence 2, F-92919 Paris. From an accounting point of view, the financial statements of Dexia include the accounts of Brussels, the Dexia head office, and those of the permanent French establishment in Paris.

CONTINUITY OF OPERATIONS (GOING CONCERN)

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

- The macroeconomic hypotheses underlying the business plan are revised as part of the half-yearly reviews of the overall plan. The update made on the basis of market data observable as at 30 June 2018 and validated by the Board of Directors of Dexia on 19 December 2018 integrates the regulatory developments known to date, including the final version of the CRD IV Directive. It also takes account of the extremely positive impact on the Dexia Group's regulatory capital of the first-time application of the IFRS 9 accounting standard as from 1 January 2018, with Dexia's Total Capital Ratio at 27.3% at the end of December 2018. Finally it takes account of the non-renewal, as from 1 January 2019, of the specific approach implemented by the European Central Bank for the supervision of the Dexia Group [(1)].
- The ongoing resolution assumes that Dexia retains a sound funding capacity, relying in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on the Group's capacity to raise secured funding. Since the end of 2012, Dexia has considerably reduced its funding requirement, diversified its access to different funding sources and taken advantage of favourable market conditions to extend the maturity of its liabilities, with a view to the prudent management of its liquidity. In particular, this enables the Group to maintain a level of liquidity reserves which is deemed appropriate considering the restriction of access to European Central Bank funding announced on 21 July 2017[(2)]. The latest update of the business plan takes account of a revision of the funding plan relying on the last observable market conditions.
- The business plan assumes the maintenance of the banking licences of the various entities and the rating of Dexia Crédit Local.

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

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

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

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

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

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

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

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

4.1. Balance sheet total (before income appropriation)

The balance sheet total of EUR 3 099 million as at 31 December 2018 is stable when compared to EUR 3 119.9 million as at 31 December 2017.

4.2. Assets

FIXED ASSETS

4.2.1. INTANGIBLE FIXED ASSETS

Intangible fixed assets totalled EUR 0.2 million and concerns the acquisition and the development of software.
These assets are depreciated on a straight-line method over a period of three years. The inventory of these assets at the end of 2018 resulted in the disposal of fully amortized IT tools and developments, for an amount of EUR 1.8 million.

4.2.2. TANGIBLE FIXED ASSETS

Tangible fixed assets which have a net book value of EUR 0.1 million have a gross acquisition value of EUR 3.3 million. Property, plant and equipment contribute a gross acquisition value of EUR 1.5 million and are depreciated on a straight-line base over a period of ten years.
The office, computer and audio-visual equipment represents a gross investment of EUR 0,6 million which is depreciated at a linear rate of 25%.
Other tangible fixed assets involving the installation of the leased premises, notably the premises located in the Bastion Tower in Brussels (gross acquisition value of EUR 1.2 million), are depreciated on a straight-line basis over the period of the lease contracts.

4.2.3. FINANCIAL FIXED ASSETS

Participation interests in affiliated companies

The item "Participating Interest" hasn't been changed in 2018 and represents EUR 2 343.1 million as at 31 December 2018.
It includes the following equity interests:

• EUR 2 250.0 million: 100% of Dexia Crédit Local (DCL), Paris, France.

The gross acquisition value of the DCL amounts to EUR 17 203.8 million and the total recognised impairment on DCL is maintained at EUR 14 953,8 million taking into account its profitability and the present value of future profits.
However, this value could be significantly impacted depending on the accounting and prudential treatment that would be assigned to the amended State guarantee scheme for issues after 31 December 2021, which was the subject of notification by the States to the European Commission on 22 February 2019.

• EUR 93.0 million: 100% of Dexia Nederland BV, Amsterdam, The Netherlands.

• EUR 0.1 million: 100% of Dexiarail SA, Paris, France.

Other financial assets

Shares and participations

In order to cover the responsibilities and risks incurred by its directors and officers, during 2012 Dexia has resorted to an alternative structure of insurance coverage including the creation of a cell (Protected Cell Company (PCC)) with a capital of EUR 2 million in an insurance company White Rock Insurance Ltd.
As a result of the reduced risk, the insurers covered all the risks again and this unit was liquidated and also its capital was fully repaid in November 2018.

CURRENT ASSETS

4.2.4. RECEIVABLES AFTER MORE THAN ONE YEAR

Other amounts receivables

Since 2002, the permanent establishment of Dexia in Paris has headed the tax consolidation group in France. As at 31 December 2018, the group includes the following companies:

• DCL Evolution
• Dexia CLF Régions Bail
• Dexia Crédit Local
• Dexia Établissement Stable Paris
• Dexia Flobail
• Dexiarail
• Genebus Lease.

Given that the commitments made by Dexia Crédit Local and its subsidiaries allow Dexia, through its permanent establishment, to lock in temporary tax savings, it was agreed that the economies generated by the permanent establishment would be lent to the tax consolidation Group's subsidiaries that made it possible to realise the tax savings through advances called "deferred tax advances".
The total of deferred tax advances granted by the permanent establishment with contractual maturity after 31 December 2019 amounted to EUR 92.1 million on 31 December 2018.

In order to ensure the operational continuity of Dexia and carry out the imposed orderly resolution plan of the Group, a trust Hyperion was founded on 29 November 2012 with the objective to pay, on behalf of Dexia, severance pay as provided for by the collective agreement on leaving conditions concluded on December 21 2011, to all staff of Dexia who have accepted to stay at least until October 2014. A loan was granted to Hyperion to finance its activities, the outstanding amount of the loan, of which the maturity is more than 1 year, is EUR 14.1 million on 31 December 2018.

4.2.5. AMOUNTS RECEIVABLE WITHIN ONE YEAR

Trade debtors

The item "Trade debtors" (EUR 0.8 million) includes commercial receivables to be charged essential to subsidiaries from the Group (EUR 0.8 million).

Other amounts receivable

The permanent establishment of Dexia in Paris is the head of the tax consolidation group in France. It is, as a result, solely liable for corporation tax from the Group in relation to its fiscal integration, given that taxes due from companies included in the tax consolidation must be paid to the permanent establishment. On 31 December 2018, the permanent establishment in Paris had a receivable of EUR 1 million to the French tax authorities as the lead company for French tax consolidation for the years 2013 to 2017.

In addition, Dexia has a receivable of EUR 0.7 million corresponding to the short-term maturity of the loan granted to Hyperion.

The balance consists of various claims of insignificant amounts (EUR 0.1 million).

4.2.6. CURRENT INVESTMENTS

Other investments and deposits

Cash surpluses of Dexia were deposited at short term with DCL (EUR 596 million).

Fixed income securities held by Dexia as at December 31, 2017 (EUR 103.4 million) were the subject of an early reimbursment made by the issuer for an amount of EUR 11.4 million in 2018. In addition, given the liquidation of the cell owned by Dexia in the insurance company White Rock Insurance PCC Ltd, all fixed income securities that had been given into guarantee could be released as a result of which Dexia decided to sale them for an amount of EUR 43.9 million, thereby generating a capital gain of EUR 7.4 million (see note 4.5.2 "Other financial products"). The balance of the securities held in portfolio represents an acquisition value of EUR 48.1 million

4.2.7. CASH AT BANK AND IN HAND

Available cash at banks and in hand totalled EUR 1.8 million.

4.2.8. DEFERRED CHARGES AND ACCRUED INCOME

Deferred charges totalled EUR 0.9 million and includes insurance (EUR 0.3 million), databases (EUR 0.4 million) and also other general expenses (EUR 0.2 million).

4.3. Shareholders' equity and liabilities

SHAREHOLDERS' EQUITY

As at 31 December 2018, the holding company's shareholders' equity including 2018 net result before profit appropriation totalled EUR 2 986.2 million and is composed of the following items:

4.3.1. CAPITAL

The subscribed and fully released capital as at 31 December 2018 amounts to EUR 500 millions and is represented by 420 134 302 shares without indication of their nominal value and each representing 1/420 134 302th of the statutory capital.
Of these 420 134 302 shares, 1 948 984 shares are identified by an ISIN code and listed on Euronext Brussels. These shares are dematerialized or registered. On 31 December 2018, those 1 948 984 shares includes 185 793 registered shares and 1 763 191 dematerialized shares. The holder may, at any time and at his own expense, request the conversion, following the case, into dematerialized securities or registered securities. The other 418 185 318 shares do not have an ISIN code and are exclusively registered shares. Holders can not request the conversion of their securities into dematerialized securities. Those 418 185 318 shares are held by the Belgian and the Frensh States.
In addition, on December 7, 2017, Dexia issued 28 947 368 beneficiary units bearing Contingent Liquidation Rights (CLR), which were granted to the Belgian and French States. These CLR do not contain voting rights and do not represent the capital of Dexia, but give the States the right to benefit from a preferential distribution, upon the liquidation of Dexia, after the settlement of debts and charges, amounting to EUR 440 million every year from 1 January 2018 until the date of liquidation.

4.3.2. SHARE PREMIUM ACCOUNT

The previous capital increases involved an issue premium so the total of these premiums amounts to EUR 1 900 million as at 31 December 2018.

4.3.3. RESERVES AND RETAINED EARNINGS

The item "Reserves" includes the legal reserves (EUR 50 millions) and an available reserve amounting to EUR 272.9 millions.

At the General Shareholders' meeting of 16 May 2018, the profit of the year 2017 of EUR 10.6 million as well as the retained earnings of 261.4 million on 31 December 2016 contributed to the reported earnings, bringing the total retained earnings to 272 million on 31 December 2017.

4.3.4. NET RESULT FOR THE YEAR

The financial year 2018 closes with a loss of EUR -8.7 million. This loss arises from the recurrent financial results (EUR +9.6 million) and non-recurring results (EUR - 2 million) from which are deducted the holding company's net operating expenses (EUR -15.7 million) and also the taxes (EUR -0.6 million).

PROVISIONS AND DEFERRED TAXES

4.3.5. PROVISIONS FOR LIABILITIES AND CHARGES

Provision for fiscal charges

DCL received a proposal for a tax adjustment of EUR 60 million at the end of 2016 for the financial year 2013. In 2017, a provision of EUR 49 millions was recorded in DCL 's accounts and a supplementary amount of EUR 4 million, linked to the fact that Dexia Establishment France is the group head of the tax consolidation perimeter in France, was also recorded in the accounts of Dexia in 2017. This adjustment was the subject of a dispute with the French tax authorities.
This file has not changed in 2018.

Provision for other liabilities and charges

Succeeding Dexia Crédit Local at the head of the tax consolidation group in France on 1 January 2002, Dexia, through its permanent establishment, assumed vis-à-vis the former head of the tax consolidation group commitments initially subscribed by Dexia Crédit Local within the context of tax leverage operations carried out in France with the approval of French tax authorities. Since then, new operations for the purpose of fiscal leverage were carried out by Dexia Credit Local, housed in subsidiaries of the consolidated tax group. These transactions have had the effect of creating a additional provision of an amount of 0.1 million EUR in 2018. The total of those commitments amounts to 1.6 million EUR on 31 December 2018.

Furthermore, the exceptional provisions related to the sale of subsidiaries which amounted to EUR 41.5 million at December 31, 2017 are maintained at 31 December 2018.

The announcement of the dismantling of the Group in October 2011 resulted in 2011 and 2017 in exceptional provisions of a total amount of EUR 56 million to cover the costs of severance payments. Those provisions amounting to EUR 17.1 million on 31 December 2017 were used for the amount of EUR 2.5 million, resulting in EUR 14.6 million at 31 December 2018.

In addition, in 2018, a new non-recurring provision of EUR 0,8 million had to be provided as part of a contract termination.

Taking into account the above, the balance of provisions for other liabilities and charges at 31 December 2018 amounts to EUR 58.5 million compared to EUR 60.1 million at 31 December 2017.

LIABILITIES

4.3.6. AMOUNTS PAYABLE WITHIN MORE THAN ONE YEAR

Subordinated loans

Dexia Funding Luxemburg (DFL), a 100% subsidiary of Dexia, issued in 2006 non-cumulative fixed-rate/floating-rate perpetual securities for an amount of EUR 500 million guaranteed by Dexia (DFL securities). Following the sale of Dexia Bank Belgium (DBB) on 20 October 2011 to the Federal Holding and Investment Company, DBB launched two public offers on the DFL securities. Dexia agreed to buy from DBB the DFL securities obtained under the offer. Following the merger by absorption of DFL by Dexia on 9 May 2012, the DFL securities acquired for the amount of EUR 460.2 million were cancelled by Dexia. There remains on 31 December 2018 in the accounts of Dexia EUR 39.8 million representing the balance of the DFL securities which have not been repurchased.

4.3.7. AMOUNTS PAYABLE WITHIN ONE YEAR

Trade debts

Suppliers' invoices not yet paid amounts to EUR 1.4 million, invoices to be received EUR 1.4 million, including 0.3 million due to related companies.

Taxes, remuneration and social security

This item includes:
• the professional withholding tax and other taxes (EUR 0.6 million);
• liabilities for remuneration and social contributions (EUR 2.1 million).

Other amounts payable

As mentioned, the permanent establishment of Dexia in Paris is the head of the tax consolidation group in France. The permanent establishment is therefore solely liable to the French tax authorities for the corporate tax by the tax group in France.
For the subsidiaries, membership in the tax consolidation group is neutral with respect to the tax situation they would be subject to if there was no consolidation. In fact, subsidiary companies must pay the corporate tax to the permanent establishment of Dexia in Paris. For the years 2013 to 2017, the head of the Group is liable to pay to the subsidiaries the tax credits for a total amount of EUR 1 million. Likewise, for the year 2018, the advances paid by the subsidiaries (EUR 0.8 million) are higher than the estimated tax which they are owed to the head of Group (EUR -0.7 million).

The balance of the dividends remaining to be paid for the previous financial years amounts to EUR 3.6 million.

4.3.8. ACCRUED CHARGES AND DEFERRED INCOME

This item consists of expenses to be accrued as follows:
• Rent charges (EUR 0.2 million)
• Other general costs (EUR 0.1 million)
And a deferred income for 0.1 million.

4.4. Off-balance-sheet items – commitments

Dexia has given guarantees in the context of the sale of its participations.

Dexia has significant commitments that are recorded off-balance sheet:

4.4.1. On 2 November 2006, Dexia (DSA) issued a subordinated guarantee within the context of a subordinated "hybrid Tier 1" issue by Dexia Funding Luxembourg SA (DFL), a 100% subsidiary of Dexia (perpetual non-cumulative securities at a guaranteed fixed/floating rate, for a global amount of EUR 500 million). This subordinated guarantee was issued in favour of the security holders who subscribed to the said securities and cover the payment by DFL of (i) any coupon which has not been waived in accordance with the issue conditions and (ii) the redemption price in the case of liquidation or insolvency of DFL (or similar situations) or (iii) the redemption price in the case of purchase in accordance with the issue conditions. Following the merger of DFL and Dexia at 9 May 2012, the guarantee has automatically expired (Dexia becomes the issuer).

4.4.2. As at 31 December 2018, all the subscription rights ("warrants") previously attributed to the employees and the management are expired.

4.4.3. On 18 May 2005, Dexia purchased 100% of the shares of Dexia Nederland Holding NV (today called Dexia Nederland BV) from Dexia Financière SA based on a valuation made of these at EUR 93 million subject to a return to better fortune clause granted to the International Bank in Luxemburg and Dexia Bank, also shareholders of Dexia Financière, for the case where the value of Dexia Nederland Holding, including the Dexia Bank Nederland (DBnl), should be revised upwards as a consequence in favour of DBnl.

4.4.4. On 5 December 2002, Dexia committed to its subsidiary Dexia Bank Nederland NV, and to each of the entities resulting from the split-up of Dexia Bank Nederland, excluding any other entity, to ensure that Dexia Bank Nederland or the entities are at any time, in a position to meet their commitments to third parties and to continue their activities, including maintenance of their relationships with account holders and other clients; in particular, the aim of this undertaking was to prevent third parties being prejudiced by the demerger of Dexia Bank Nederland. The amendment or withdrawal of this undertaking was subject to prior agreement of DNB (De Nederlandsche Bank). The sale of Kempen & Co NV to a group of financial investors and management was finalised on 15 November 2004. Within the context of this sale, Dexia reconfirmed by letter dated the same day its commitment towards Dexia Bank Nederland, which remains a 100% subsidiary of Dexia to the exclusion of any other entity.
In addition to the usual guarantees given to purchasers to which Dexia is also bound, Dexia will indemnify Kempen & Co against the risks relating to share leasing contracts sold by Dexia Bank Nederland NV, formerly Labouchere, and committed to compensate Kempen & Co for damage resulting from a limited and identified number of elements.

4.4.5. TRANSACTIONS WITH THE BELGIAN, FRENCH AND LUXEMBOURG STATES

See note 4.4.C. "Transactions with the Belgian, French and Luxembourg states" of the consolidated financial statements.

4.4.6. LEASE GUARANTEES

The transfer of the registered office of Dexia to the Bastion Tower, Place du Champ de Mars 5, B-1050 Brussels required the deposit of an unconditional guarantee payable on first demand of EUR 0.3 million in favour of the owner of the premises.

4.4.7. REAL GUARANTEES ON OWN FUNDS

Cash frozen on a ad hoc account is given as surety to Belfius Bank for lease guarantees (EUR 0.3 million).

4.4.8. GUARANTEE GIVEN BY DEXIA TO DEXIA CRÉDIT LOCAL ("DCL") WITHIN THE FRAMEWORK OF THE SALE OF DHI TO DCL

On 13 March 2014, Dexia irreversibly committed to DCL to compensate the latter for any amounts of damages, interests and/or fees that could be incurred by DCL, as part of ongoing investigations in the United States related to the Guaranteed Investment Contracts that were concluded with the issuers of American municipal bonds.

4.4.9. ISSUE OF PROFIT SHARES (CONTINGENT LIQUIDATION RIGHTS)

As mentioned at point 4.3.1., on 7 December 2017, at the conversion of the preference shares of class B into ordinary shares, profit CLR shares have been issued and granted to holders of class B shares, namely the Belgian and French States. They therefore benefit from a preferential distribution upon the liquidation of Dexia at certain conditions. Nevertheless, the owners of those profit shares CLR have no right to vote as such, except in cases and at the conditions foreseen in accordance with the Company Code (see note 4.8. of the consolidated)

4.4.10. LITIGATIONS

See chapter Risk management in the Management Report.

4.5. Income Statement

4.5.1. OPERATING RESULT

Other operating income (EUR +8.5 million) includes the services provided by the teams of the holding to other entities of the group in the context of the steering mission of the departments to the new dimension of the Dexia Group (EUR 7.7 million). Also included in this item are the recovery of costs from Group companies (0.6 million EUR) following purchasing contracts negotiated at the level of the holding company for the entire group as well as the reimbursement of a property tax (0.2 million euros).

The **Non-recurring operating** income (EUR 0.5 million) includes the refund of damages supported as part of the dismantling (EUR 0.5 million)

Services and other goods amounting to EUR 15.3 million as at 31 December 2017 become EUR 14.6 million at 31 December 2018.
This item includes fees paid to consultants, experts, auditors, as well as compensations paid to the members of the Management Board and Board of Directors which has been decreased by EUR 5.1 million in 2017 against EUR 4.6 million in 2018 following the permanent policy of cost restraint. The insurance costs, which are related to the D&O responsibility of the directors and officers of Dexia, also cover the consequences of frauds for Dexia committed by its employees as well as third party victims of certain losses caused by Dexia ("BBB/PI"). These covers incurred again a reduced cost of EUR 1 million before taking into account a re-invoicing for an amount of EUR 0.3 million to other entities of the Group compared to a net charge of EUR 0.8 million in 2017, follow-

ing the decrease in the number of subsidiaries of the group and the risk review.
Other operating costs (rental of buildings, telecommunications, travel, trainings, etc.) were limited to EUR 8.4 million compared to EUR 8.7 million in 2017.
Costs associated with the Group transformation plan amounts to EUR 0.6 million in 2018, compared to EUR 0.3 million in 2017.

The **cost of remunerations and social charges** declines from EUR 9.4 million in 2017 to EUR 9 million in 2018 in connection with the decrease in the number of staff from 63.9 FTEs in 2017 to 57.1 FTEs in 2018.

Amortisation amounts to EUR 0.2 million and mainly concern intangible assets.

Provisions for risks and charges are commented in the first paragraph of note "4.3.5. Provisions for other risks and charges".

Other operating expenses (EUR 0.2 million) consist of the annual contribution paid to the Financial Services and Markets Authority (FSMA) (EUR 0.1 million) as well as the property taxes and others (EUR 0.1 million).

The **non-recurring operational costs** (EUR 2,4 million) (see note 4.19.) include in the subsection "provisions for exceptional risk and charges" (EUR -1.7 million) the utilization of the provision corresponding to severance costs provided for following the announcement of the resolution plan in October 2011(EUR -2.5 million) and an allocation of EUR 0,8 million to cover the compensation for the termination of a contract.

The subsection "other non-recurring operational expenses" (EUR 4.1 million) includes termination benefits and similar expenses essentially related to the resolution plan of the group (EUR 2.9 million), as well as the expenses incurred following the sale of the participations held and in the framework of the strategic analysis on the evolution of the Group (EUR 1.2 million).

4.5.2. FINANCIAL RESULT

Income from current assets (EUR 0.3 million) include the interests generated by deferred taxes advances (EUR 0.2 million) and as well as fixed-income securities held in the portfolio (EUR 0.1 million).

Other financial income (EUR 9.9 million) are the result of firstly, realized capital gains (EUR 7.4 million) on the sale at their market value (EUR 51.3 million) of fixed-income instruments held by the issuers, acquired in 2012 and, on the other hand, capital gains generated on fixed-income securities at the repayment operated by issuers and this thanks to the recovery of the financial markets since their acquisition in 2012 (EUR 2.5 million).

Other financial charges (EUR 0.6 million) include a negative interest expense arising from short-term investments made at Dexia Crédit Local (EUR 0.5 million) and other costs (EUR 0.1 million) related to the quotation of the Dexia share, the management fees for the securities and storage costs.

Non-recurring financial charges (EUR 0.1 million) represents an idemnity paid in connection with the review of the sale price of a subsidiary (EUR 0.1 million).

4.5.3. CORPORATE INCOME TAX

Taxes (EUR-1.3 million)

Taxes related to tax savings relating to prior years (EUR 1.3 million).

Adjustments of income taxes (EUR 0.7 million)

These tax revenues originate from the fact that the permanent establishment in Paris is the group head of the tax consolidation group in France, generating a economic tax saving representing a gain of EUR 0.7 million for the year 2018.

4.5.4. LOSS FOR THE FINANCIAL YEAR

Considering the above, the 2018 financial year closed with a loss of EUR -8.7 million.

4.6. Statement of intangible fixed assets (licences)

(in EUR)	Period
ACQUISITION VALUE AS AT 31/12/17	**2,367,103**
Movements during the period:	
- Acquisitions, including produced fixed assets	12,977
- Sales and disposals	(1,757,166)
ACQUISITION VALUE AS AT 31/12/18	**622,914**
DEPRECIATION AS AT 31/12/17	**2,063,188**
Movements during the period:	
- Recorded	166,228
- Canceled due to sales and disposals	(1,757,166)
DEPRECIATION AS AT 31/12/18	**472,250**
NET BOOK VALUE AS AT 31/12/18	**150,664**

4.7. Statement of tangible fixed assets

(in EUR)	Plant, machinery and equipmet	Furniture and vehicles	Other tangible fixed assets
ACQUISITION VALUE AS AT 31/12/17	288,348	1,747,055	1,217,401
Movements during the period:	0	0	0
ACQUISITION VALUE AS AT 31/12/18	288,348	1,747,055	1,217,401
DEPRECIATION AS AT 31/12/17	280,136	1,590,335	1,199,670
Movements during the period:			
- Recorded	2,529	45,992	4,823
DEPRECIATION AS AT 31/12/18	282,665	1,636,327	1,204,493
NET BOOK VALUE AS AT 31/12/18	5,683	110,728	12,908

4.8. Statement of financial fixed assets

1. PARTICIPATING INTERESTS AND SHARES

(in EUR)	1. Affiliated	2. Other enterprises
ACQUISITION VALUE AS AT 31/12/17	17,296,965,606	2,001,000
Movements during the period:		
- Sales and disposals	0	(2,001,000)
ACQUISITION VALUE AS AT 31/12/18	17,296,965,606	0
AMOUNTS WRITTEN DOWN AS AT 31/12/17	14,953,824,257	0
Movements during the period:	0	0
AMOUNTS WRITTEN DOWN AS AT 31/12/18	14,953,824,257	0
NET BOOK VALUE AS AT 31/12/18	2,343,141,349	0

2. AMOUNTS RECEIVABLE

(in EUR)	1. Affiliated	2. Other enterprises
NET BOOK VALUE AS AT 31/12/17	0	7,432
Movements during the period:		
- Others	0	(5,882)
NET BOOK VALUE AS AT 31/12/18	0	1,550
ACCUMULATED WRITING-OFF'S ON RECEIVABLES AS AT 31/12/18	0	0

4.9. Shareholdings in the capital and social rights held in other companies

List of enterprises in which the enterprise holds a participating interest, and other enterprises in which the enterprise holds rights for an amount of at least 10% of the capital issued.

Name, full address of the registered office and for the enterprise governed by Belgian law, the company number	Shares held			Information from the most recent period for which annual accounts are available			
	Directly		Subsidiaries	Primary financial statement	Monetary unit	Capital and reserve	Net result
	Number	%	%			(+) or (-) (in monetary unit)	
Dexia Crédit Local SA - FC [(1)] 1, passerelle des Reflets, Tour CBX - La Défense 2 F-92919 Paris Common shares	279,213,332	100.00	0.00	31/12/17	EUR	2,658,221,280	1,003,770,302
Dexia Nederland BV - FC [(1)] Parnassusweg 819 NL-1082 LZ Amsterdam Common shares	50,000	100.00	0.00	31/12/17	EUR	156,867,000	(26,761,000)
Dexiarail SA - FC [(1)] 1, passerelle des Reflets, Tour CBX - La Défense 2 F-92919 Paris Common shares	9,166	100.00	0.00	31/12/17	EUR	103,512	(4,605)

(1) FC: Foreign Company

4.10. Investments : other investments and deposits

(in EUR)	Previous period	Period
Fixed income securities	**103,428,823**	**48,064,295**
Fixed term deposits with credit institutions	**539,000,000**	**596,000,000**
with a residual maturity or period of notice of:		
- More than one month but within one year	539,000,000	596,000,000

4.11. Deferred charges and accrued income (assets)

(in EUR)	Period
Deferred charges : Services and other goods	855,755
Accrued income: Interest	47,931

4.12. Statement of capital and shareholder's structure

A. ISSUED CAPITAL

	Amount (in EUR)	Number of shares
ISSUED CAPITAL AS AT 31/12/17	**500 000 000**	**420 134 302**
Changes during the period:	0	0
ISSUED CAPITAL AS AT 31/12/18	**500 000 000**	**420 134 302**

B. STRUCTURE OF THE CAPITAL

	Amount (in EUR)	Number of shares
Different categories of shares		
Shares without indication of nominal value, each representing 1/420,134,302th of the issued capital	500 000 000	420 134 302
Registered shares		418 371 111
Dematerialized shares		1 763 191

C. OWN SHARES HELD BY:

	Amount of capital (in EUR)	Number of shares
- the company itself	0	0
- its direct subsidiaries	133	112

D. AMOUNT OF AUTHORIZED CAPITAL, NOT ISSUED

	Amount (in EUR)
	500,000,000

E. NON REPRESENTATIVE UNITS OF CAPITAL

	Period (in EUR)
Ventilation	
- Number of shares	28,947,368
- Number of votes attached to it	0
Breakdown by shareholder	
- Number of shares held by the company	0
- Number of shares held by its subsidiaries	0

F. SHAREHOLDER STRUCTURE OF THE ENTRERPRISE AS AT THE DATE OF THE ANNUAL CLOSURE

As it appears from the notifications received by the company in accordance with the Companies Code, article 631 §2 and article 632 §2 of the law of 2 May 2007 related to the publication of important shareholdings, article 14, paragraph 4; of the Royal Decree of 21 August 2008 fixing detailed rules concerning certain multilateral trading facilities, article 5.

Name of persons holding social rights in the company with mention of the address of the registered office for legal persons and, for companies incorporated under Belgian law, mention of the company number	Social rights held			
	Nature	Number of voting rights		%
		attached to shares	not attached to shares	
Société Fédérale de Participations et d' Investissement (SFPI) for Belgium Avenue Louise 32, boîte 4 1050 Bruxelles - Belgique N° d'entreprise : 0253.445.063	Shares	221,749,916	0	52.78
Société de Prise de Participation de l'Etat (SPPE) for France Rue de Bercy 139 75572 Paris Cédex 12 - France Foreign Company	Shares	196,658,798	0	46.81

4.13. Provisions for liabilities and charges

(in EUR)	Period
Provision for guarantees related to the sale of participations	41,500,000
Severance payments and related costs	14,584,249
Commitment as head of a fiscal consolidation (France)	1,608,939
Provision for the cancellation of a contract	800,000

4.14. Statements of amounts payable

Analysis of debts with an original maturity of more than one year (in EUR)	**Amounts payable after more than 5 years**
Financial debts	**39,788,000**
Subordinated loans	39,788,000

4.15. Amounts payable for taxes, remuneration and social security

(in EUR)	Period
Taxes	
a) Expired taxes payable	0
b) Non-expired taxes payable	555,562
c) Estimated taxes payable	11,047
Remuneration and social security	
a) Amounts due to the National Office of Social Security	0
b) Other amounts payable relating to remuneration and social security	2,094,561

4.16. Accrued charges and deffered income (liabilities)

(in EUR)	Period
Accrued charges : rent	201,706
Accrued charges : taxes and rental charges	77,228
Accrued charges : interest	28,295
Accrued charges : insurance	7,120
Accrued income : recuperation of the database costs	109,360

4.17. Operating results

(in EUR)	Previous Period	Period
OPERATING INCOME		
Other operating income		
The total amount of operating subsidies and compensatory amounts obtained from public authorities	536	122
OPERATING CHARGES		
Employees for which the enterprise has declared a DIMONA-statement or employees recorded in a general personnel register in Belgium		
a) Total number at the closing date	62	60
b) Average number of employees in full-time equivalents	63.9	57.1
c) Number of actual working hours	88,089	81,900
Personnel charges		
a) Remuneration and direct social benefits	6,640,322	6,545,319
b) Employers' contribution for social security	1,910,134	1,730,513
c) Employers' premium for extra statutory insurance	660,999	610,783
d) Other personnel charges	152,558	138,558
e) Old-age and widow's pensions	7,109	7,228
Provisions for liabilities and charges		
Increases	150,836	150,838
Other operating charges		
Taxes related to operations	72,669	108,531
Other charges	1,060,788	134,302

4.18. Financial results

(in EUR)	Previous Period	Period
RECURRING FINANCIAL INCOME		
Split of the other financial income		
Exchange differences	1,220	522
Gain at refund of fixed-income securities	3,771,248	2,584,883
Other financial income	19,997	0
Capital gain on sales of fixed income securities	0	7,362,216
RECURRING FINANCIAL CHARGES		
Split of the other financial charges		
Exchange differences	3,598	6,462
Other financial charges	18,957	19,185
Charges related to the quotation of the Dexia share	21,276	25,625
Storage costs	26,483	23,641
Negative interests	432,172	516,664

4.19. Income and expenses of exceptional size or exceptional degree of occurance

(en EUR)	Previous Period	Period
NON-RECURRING INCOME	**21,878,009**	**483,039**
Non-recurring operating income	19,441,186	483,039
Write back of provisions for exceptional operational risks and charges	18,465,583	0
Other non-recurring operating income	975,603	483,039
Non-recurring financial income	2,436,823	0
Other non-recurring financial income	2,436,823	0
NON-RECURRING CHARGES	**3,372,338**	**2,447,249**
Non-recurring operational charges	2,805,950	2,384,521
Provisions for exceptional operating risks and charges: increase(+) / decrease (-)	(1,927,940)	(1,723,837)
Other non-recurring operational charges	4,733,890	4,108,358
Non-recurring financial charges	566,388	62,728
Provisions for exceptional financial risks and charges: increase (+) / decrease (-)	(3,000,000)	0
Other non-recurring financial charges	3,566,388	62,728

4.20. Income taxes

(in EUR)	Period
Income taxes of the current period:	**13,127**
a) Taxes and withholding taxes due or paid	13,127
Income tax of previous years	**1,319,710**
a) Additional tax due or paid	1,319,710
b) Estimated additional taxes or taxes for which a provision was formed	0
Principal sources of differences between the profit before taxes, mentionned in the accounts, and the estimated taxable profit	
a) Fiscal integration in France (PM)	1
b) Non-deductible provisions	800,000
c) Write back of non-deducltible provisions	(2,523,837)
d) Non tax deductible expenditure	448,717
Impact of the exceptional results on the taxes on the result of the year	
Are taxable : the non-recurring other exploitation charges and income (-3 625 269 EUR) and also the non-recurring other financial charges for an amount of -11 EUR.	3,625,280
Status of deferred taxes:	
Deferred taxes representing assets	4,895,639,610
Accumulated tax losses deductible from future taxable profits	4,712,044,658
Other deferred taxes representing assets	
- Surplus on depreciations	164,405
- Surplus of revenues definitively taxed	183,430,547

4.21. Value added tax and taxes borne by third parties

(in EUR)	Previous Period	Period
Total amount of value added tax charged during the period :		
1. To the enterprise (deductible)	73,633	81,637
2. By the enterprise	4,034	6
Amounts retained on behalf of third parties for:		
1. Payroll withholding taxes	3,319,302	2,954,871
2. Withholding taxes on investment income	0	0

4.22. Rights and commitments not reflected in the balance sheet

(in EUR)	Period
Guarantees given or irrevocably promised by the enterprise on its own assets collateral for own debts and liabilities of the company	
Pledging of other assets - Book value of assets pledged	308,690

Amount, nature and form of the litigations and other off-balance commitments given
See note 4.4.

Supplementary retirement or survivor's pension plan in favour of the staff or the managers.

Brief description
Members of staff benefit from a supplementary retirement and survival pension scheme for wich both employees and staff premiums have been paid to a group insurance. Some members of the Management Board also benefit from a supplementary scheme of which the contributions are paid to an external insurance company. (See note "Remuneration of the members of the Management Board" in the section "Declaration of corporate governance" of the management report).

5. Relationships

5.1. RELATIONSHIPS WITH AFFILIATED ENTERPRISES

	Affiliated enterprises	
(in EUR)	Previous Period	Period
FINANCIAL FIXED ASSETS	**2,343,141,349**	**2,343,141,349**
Participations	2,343,141,349	2,343,141,349
AMOUNTS RECEIVABLE	**93,610,101**	**92,853,815**
After one year	90,774,083	92,090,405
Within one year	2,836,018	763,410
CURRENT INVESTMENTS	**539,000,000**	**596,000,000**
Amounts receivable	539,000,000	596,000,000
AMOUNTS PAYABLE	**1,344,541**	**1,399,018**
Within one year	1,344,541	1,399,018
FINANCIAL RESULTS		
Income from current assets	222,489	225,964
Other financial income	0	7,362,216
Other financial charges	380,151	502,102

5.2. Transactions with related parties outside of normal market conditions

Nihil.

5.3. Relationships with directors and managers, natural or legal persons who control directly or indirectly the enteprise without being associated therewith or other enterprises directly or indirectly controlled by the mentioned persons

Amount of direct and indirect remuneration and pensions, included in the income statement, as long as this disclosure does not concern exclusively or mainly, the situation of a single identifiable person

To the directors	1,831,877
To the former directors	1,992

5.4. Financial Relationships with affiliated auditors and persons being associated therewith

Remuneration of the Statutory Auditor	356,360
Remuneration for exceptional tasks executed within the enterprise by the Statutory Auditor	
Other missions external to the audit	135,050

6. Financial instruments that are not valued based on the fair values.

(in EUR)	Accounting value	Fair Value
Amount of individual assets or appropriate groups thereof		
Participation in Dexia Crédit Local	2,250,000,000	

Reasons why the book value has not decreased

The gross acquisition value of DCL amounts to EUR 17,203.8 million and the total value reduction applied to DCL remains 14,953.8 million, taking into account the profitability and the current value of its future profits.

The management estimates that the recoverable amount of DCL is not lower than the book value and that therefore there is no impairment or a sustainable depreciation.

However, this value can be significantly affected depending on the accounting and prudential processing that will be granted to the amended State guarantee scheme of the States for emissions after 31 Decembre 2021, which was the subjet of a notification by the States to the European Commission on 22 February 2019.

Moreover, the definition of fair value for financial fixed assets in the Royal Decree of January 30, 2001, articles 91 XX and 97B is not defined.

The management is unable to provide the required indications with regard to the financial assets that would be taken into account for an amount higher than their fair value.

7. Declaration concerning the consolidated accounts

The enterprise has established and published the consolidated accounts and a consolidated financial statement.

8. Social report

Number of the joint commission of the company: 200

8.1. Statement of the persons employed in 2018

A. EMPLOYEES FOR WHICH THE ENTERPRISE HAS DECLARED A DIMONA-STATEMENT OR EMPLOYEES RECORDED IN THE GENERAL STAFF REGISTER

1. During the period	Total	1. Male	2. Female
a. Average number of employees			
Full-time	49.6	31.3	18.3
Part-time	12.6	9.0	3.6
TOTAL FULL-TIME EQUIVALENTS (FTE)	**57.1**	**35.8**	**21.3**
b. Number of actual working hours			
Full-time	70,715	44,547	26,168
Part-time	11,185	7,711	3,474
TOTAL	**81,900**	**52,258**	**29,462**
c. Personnel charges			
Full-time	7,715,582	5,037,209	2,678,373
Part-time	1,309,591	918,867	390,724
TOTAL	**9,025,173**	**5,956,076**	**3,069,097**

2. During the previous year	P. Total	1P. Male	2P. Female
Average number of employees in FTE	63.9	39.5	24.4
Number of actual working hours	88,089	54,991	33,098
Personnel charges	9,364,013	6,061,221	3,302,792

3. As at the closing date of the period	Full-time	Part-time	Total of full-time equivalents
a. Number of employees	47	13	54.6
b. By nature of the employment contract			
Contract of indefinite period	47	13	54.6
c. According to gender and by level of education			
Male :	29	10	34.0
secondary education	3	0	3.0
higher non-university education	3	0	3.0
university education	23	10	28.0
Female :	18	3	20.6
secondary education	2	0	2.0
higher non-university education	3	2	4.8
university education	13	1	13.8
d. By professional category			
Management staff	6	1	6.8
Employees	41	12	47.8

8.2. Table of personnel movements during the period

A. ENTRIES

	Full-time	Part-time	Total of full-time equivalents
a. Number of employees for which the enterprise has declared a DIMONA-statement or employees recorded in the general staff register in Belgium during the period	7	2	7.2
b. By nature of the employment contract			
Contract for an indefinite period	6	2	6.2
Contract for an definite period	1	0	1.0

B. DEPARTURES

	Full-time	Part-time	Total of full-time equivalents
a. Number of employees for which the enterprise declared a DIMONA-statement or number of employees with a in the in Belgium general staff register listed date of termination of the contract during the period	11	1	11.8
b. By nature of the employment contract			
Contract for an indefinite period	10	1	10.8
Contract for an definite period	1	0	1.0
c. According to the reason for termination of the employment contract			
Dismissal	2	1	2.8
Other reason	9	0	9.0
Of which: the number of persons who continue to render services to the enterprise at least half-time on a self-employed basis	0	0	0

8.3. Information on training provided during the financial year to employees recorded on the staff register

Total of formal continuing vocational training initiatives for workers paid by the employer	Male	Female
Number of employees involved	13	12
Number of training hours	227	205
Net costs for the enterprise (in EUR)	74,253	46,753
- whereof gross costs directly associated with the company (in EUR)	58,085	37,760
- of which contributions and payments to collective funds	16,168	8,993
Total of less formal and informal continuing vocational training initiative for workers paid by the employer		
Number of employees involved	30	17
Number of training hours	125	113
Net costs for the enterprise (in EUR)	17,329	14,744

9. Compensation Report

For companies in which the governement or one or more legal persons exercise control (Article 100 §1.6°/3 of the Company Code).
See the management report

Report of the board of auditors to the shareholders' meeting of Dexia SA for the year ended 31 December 2018 - Annual accounts

n the context of the statutory audit of the annual accounts of Dexia SA (the "company"), we hereby submit our statutory audit report. This report includes our report on the annual accounts and the other legal and regulatory requirements. These parts should be considered as integral to the report.

We were appointed in our capacity as statutory auditor by the shareholders' meeting of 17 May 2017, in accordance with the proposal of the board of directors issued upon recommendation of the audit committee and presentation of the works council. Our mandate will expire on the date of the shareholders' meeting deliberating on the annual accounts for the year ending 31 December 2019. Deloitte Réviseurs d'Entreprises / Bedrijfsrevisoren has audited the annual accounts of Dexia SA for 11 consecutive periods. Mazars Réviseurs d'Entreprises / Bedrijfsrevisoren has audited the annual accounts of Dexia SA for 2 consecutive periods.

Report on the annual accounts

Unqualified opinion

We have audited the annual accounts of the company, which comprises the balance sheet as at 31 December 2018 and the income statement for the year then ended, as well as the explanatory notes. The annual accounts show total assets of 3 099 024 (000) EUR and the income statement shows a loss for the year ended of 8 730 (000) EUR.

In our opinion, the annual accounts give a true and fair view of the company's net equity and financial position as of 31 December 2018 and of its results for the year then ended, in accordance with the financial reporting framework applicable in Belgium.

Basis for the unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISA), as applicable in Belgium. In addition, we have applied the International Standards on Auditing approved by the IAASB applicable to the current financial year, but not yet approved at national level. Our responsibilities under those standards are further described in the "Responsibilities of the statutory auditor for the audit of the annual accounts" section of our report. We have complied with all ethical requirements relevant to the statutory audit of the annual accounts in Belgium, including those regarding independence.

We have obtained from the board of directors and the company's officials the explanations and information necessary for performing our audit.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Description key audit matter 1 – The ability to continue as a going concern used for the preparation of the annual accounts *(We refer to appendix C6.20 of the financial statements.)*	
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 SA of 19 December 2018, is based amongst others on the following assumptions: • in its latest semestrial update, the business plan is based on observable market data as of 30 June 2018. • the underlying macro-economic assumptions to the business plan are reviewed as part of the semi-annual reviews of the orderly resolution plan, which also include a review of the latest observable market data and a review of the latest accounting standards and regulatory developments. The latter includes, in its latest update, amongst other the non-renewal, as from 1 January 2019, of the specific approach applied by the European Central Bank for the supervision of the Dexia Group; • the business plan assumes the preservation of the banking licenses of the different entities composing the Group and of the credit rating of Dexia Credit Local; • the continuation of the resolution plan assumes that the 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; • discussions are occurring between the European Commission and the Belgian and French States, on the renewal of the States guarantee beyond 31 December 2021; • 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 the business plan; • finally, the Group is exposed to certain operational risks, inherent to the context of the resolution in which it is operating. As of today uncertainties remain about the realization of the business plan supporting the ability to continue as a going concern for the Dexia Group. Consequently, we consider the ability to continue as a going concern used for the preparation of the financial statements as a key audit matter.	We have examined the latest evaluation made by the Executive Committee and the Board of Directors of the Dexia Group of the going concern principle for a period of twelve months starting at the closing date of the exercise, as prescribed by IAS 1 – Presentation of Financial Statements, as well as the elements used to justify the evaluation and the underlying documentation: We have applied, amongst other, the diligences prescribed by IAS 570 "Going Concern": • we have assessed the elements on which the liquidity projections were estimated, supporting the business plan on a reasonable time horizon, based on the related documentation prepared by Dexia Group and on inquiries of management. • we have considered the main regulatory ratios as of 31 December 2018 (Liquidity Coverage Ratio, Common Equity Tier 1) in light of the requirements applicable to the Dexia Group; • we have assessed the compliance with the legal and regulatory requirements of the available information on the going concern assumption presented in the notes to the Consolidated Financial Statements.We have inquired the Executive Committee and Board of Directors regarding the latest underlying assumptions to the revised business plan, based on end of June 2018 data and presented to the Board of Directors on 19 December 2018. As mentioned in note C6.20, as of today, uncertainties exist on the realization of this business plan, besides the macro-economic factors, that are amongst other related to: – the conditions to access the facilities of the Eurosystem financing facilities after 2021; – the renewal of the States/ shareholders' guarantee beyond 2021, on which the States guarantors-shareholders have started discussions. We have been made aware of the notification on 25 February 2019 by the States to the European Commission of a project of a new guarantee, which is still being discussed and is subject to the validation procedures in Belgium and in France, and which is ultimately subject to an agreement between Dexia and the two States; – the future organizational structure of the Dexia group; • we have considered the quarterly reports on the (i) financing strategy and (ii) operational continuity, established by the Dexia Group as requested by the European Central Bank. Finally, we have examined the compliance with the legal and regulatory requirements of the information related to the going concern in the notes of the consolidated financial statements.

Key audit matters	How our audit addressed the key audit matters
Description key audit matter 2 – Identification and evaluation of the provisions for legal risk related to litigations *(We refer to appendices C6.8, C6.20 and C7 of the financial statements)*	
In the context of its activities, Dexia SA is involved in a certain number of legal risks and litigations. The consequences, as assessed by the company based on the available information at closing date, of the main litigations, including those related to the 'share leasing' activities in the Netherlands and the investigations with a potential significant outlook on the financial situation, the results or the assets of the company, are reflected in the annual accounts. The recording of a provision or contingent liability in order to cover the legal risk requires by nature the use of professional judgment due to the difficulty to estimate the outcome of litigations that may arise. Due to the nature of the current procedures against the Company and given the estimated character of the provisions, we consider the legal risk and litigations as a key audit matter.	We have assessed the adequacy of the internal control system and tested the operating effectiveness of key controls related to the process of determining the provisions for litigation. These controls mainly concern the identification of the files to be provisioned based on the motives of the dispute and the determination of the amount of the provisions estimated using the methodologies retained by the company. Our audit work has focused on the following: • we have conducted discussions with the management and more specifically the company's legal department; • we have examined the motives for the current disputes and have assessed the adequacy of the existence of provisions based on the company's assumptions; • we have assessed the principles and assumptions used by the company to estimate the amount of provisions for litigations; • we have inquired with the law firms with which Dexia is working to obtain and review the assessment made by these lawyers on the status of the litigations. Finally, we have examined the information in the appendices of the annual accounts for provisions.

Key audit matters	How our audit addressed the key audit matters
Description key audit matter 3 – Valuation of participating interests *(We refer to appendices C6.4.1, C6.5.1, C6.17, C6.19 and C6.20 of the annual accounts)*	
Participating interests, shown in the balance sheet at 31 December 2018 for a net amount of 2 343 million EUR, represent the largest item in the balance sheet. These interests are recognized at their acquisition cost and depreciated in the event of a permanent depreciation or impairment. Permanent depreciation or impairment is estimated by the Board of Directors based on the equity value at the end of the financial year of the entities concerned, their level of profitability and their profit forecasts. The estimation of the value of these securities requires the exercise of judgment by the Board of Directors in its choice of items to be considered, that may correspond to provisional elements. In this context, and because of the uncertainties inherent in certain elements and in particular the probability of the forecasts being met, we considered that the valuation of the participating interests was a key audit matter.	In assessing the reasonableness of the valuation of the participating interests, based on the information provided to us, our work consisted mainly in verifying that the estimation of these values determined by the Board of Directors is based on an appropriate justification of the evaluation method and the quantified elements used and to: • obtain cash flow and operating forecasts and assess consistency with the forecast data from the last strategic plan; • check the consistency of the assumptions used at the closing date of the annual accounts; • compare the forecasts retained for previous periods with the corresponding achievements to assess the achievement of past objectives. Finally, we have assessed the compliance with the legal and regulatory requirements of the available information on the financial assets presented in the notes to annual accounts.

Responsibilities of the board of directors for the preparation of the annual accounts

The board of directors is responsible for the preparation and fair presentation of the annual accounts in accordance with the financial reporting framework applicable in Belgium and for such internal control as the board of directors determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the board of directors is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters to be considered for going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the statutory auditor for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue a statutory auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA 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 annual accounts.

During the performance of our audit, we comply with the legal, regulatory and normative framework as applicable to the audit of annual accounts in Belgium.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from an error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

• obtain 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 company's internal control;

• evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors;

• conclude on 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. If we conclude that a material uncertainty exists, we are required to draw attention in our statutory auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our statutory auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern;

• evaluate the overall presentation, structure and content of the annual accounts, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and we communicate with them about all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the audit committee, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes any public disclosure about the matter.

Other legal and regulatory requirements

Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report on the annual accounts, the statement of non-financial information attached to the directors' report on the annual accounts and other matters disclosed in the annual report, for the documents to be filed according to the legal and regulatory requirements, for maintaining the company's accounting records in compliance with the legal and regulatory requirements applicable in Belgium, as well as for the company's compliance with the Companies Code and the company's articles of association.

Responsibilities of the statutory auditor

As part of our mandate and in accordance with the Belgian standard complementary (revised in 2018) to the International Standards on Auditing (ISA) as applicable in Belgium, our responsibility is to verify, in all material respects, the director's report on the annual accounts the statement of non-financial information attached to the directors' report on the annual accounts and other matters disclosed in the annual report, those documents to be filed according to the legal and regulatory requirements and compliance with certain obligations referred to in the Companies Code and the articles of association, as well as to report on these matters.

Aspects regarding the directors' report and other information disclosed in the annual report

In our opinion, after performing the specific procedures on the directors' report on the annual accounts, the directors' report on the annual accounts is consistent with the annual accounts for that same year and has been established in accordance with the requirements of article 95 and 96 of the Companies Code.

In the context of our statutory audit of the annual accounts we are also responsible to consider, in particular based on information that we became aware of during the audit, if the directors' report on the annual accounts is free of material misstatement, either by information that is incorrectly stated or otherwise misleading. In the context of the procedures performed, we are not aware of such material misstatement. The non-financial information as required by article 96, § 4 of the Companies Code has been disclosed in the directors' report under section "Non-financial declaration – Corporate social responsibility" that is part of the annual report. This non-financial information has been established by Dexia SA in accordance with the law of

3 September 2017 related to the publication of non-financial information and information on diversity by large corporates and groups, which transposes Directive 2014/95/EU. We do however not express any opinion on the question whether this non-financial information has been established, in all material respects, in accordance with the provisions of the above-mentioned law.

Statement on the social balance sheet

The social balance sheet, to be filed at the National Bank of Belgium in accordance with article 100, § 1, 6°/2 of the Companies Code, includes, both in form and in substance, all of the information required by the Companies Code and is free from any material inconsistencies with the information available to us in the context of our mission.

Statements regarding independence

- Our audit firms and our networks have not performed any prohibited services and our audit firms have remained independent from the company during the performance of our mandate.
- The fees for the additional non-audit services compatible with the statutory audit of the annual accounts, as defined in article 134 of the Companies Code, have been properly disclosed and disaggregated in the notes to the annual accounts.

Other statements

- Without prejudice to certain formal aspects of minor importance, the accounting records are maintained in accordance with the legal and regulatory requirements applicable in Belgium.
- The appropriation of results proposed to the general meeting is in accordance with the relevant legal and regulatory requirements.
- We do not have to report any transactions undertaken or decisions taken which may be in violation of the company's articles of association or the Companies Code.

This report is consistent with our additional report to the audit committee referred to in article 11 of Regulation (EU) N° 537/2014.

Zaventem and Brussels, 10 April 2019
The Board of Auditors

DELOITTE Réviseurs d'Entreprises
SCRL/CVBA
Represented by Yves Dehogne

MAZARS Réviseurs d'Entreprises
SCRL/CVBA
Represented by Xavier Doyen

Additional information

Certificate from the responsible person

I the undersigned, Wouter Devriendt, Chief Executive Officer and Chairman of the Management Board of Dexia, certify that to the best of my knowledge:

a) the financial statements, established in accordance with applicable accounting standards, present a true and fair view of the assets, the financial situation and the earnings of the company and of all the companies included in the consolidation;

b) the management report contains a true and fair view of changes in the revenues, earnings 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 uncertainties to which they are exposed.

Brussels, 28 March 2019

For the Management Board

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

General data

Name

The company is called "Dexia".

Registered Office

The registered office of the company is in Belgium at Place du Champ de Mars, 5, 1050 Brussels (RPM Brussels VAT BE 0458.548.296).

Legal form, incorporation, duration

The company is a limited company under Belgian law that makes a public appeal for investment. It was incorporated on 15 July 1996 for an indefinite period. The company has one permanent office located in Paris.

Corporate object

Article 3 of the articles of association reads as follows:

"The company has the object, both in Belgium and in other countries of:

1. the acquisition, holding, management and sale, by whatever means, of all equity interests in companies or any other legal entities, whatever their legal form, existing or to be created, which operate as credit institutions, insurance or reinsurance companies or which carry on financial, industrial, commercial or civil, administrative or technical activities, as well as all types of shares, bonds, public funds and any other financial instruments of whatever nature;

2. the acquisition, holding, management and sale, by whatever means, of all equity interests in companies or any other legal entities, whatever their legal form, existing or to be created, which operate as credit institutions, insurance or reinsurance companies or which carry on financial, industrial, commercial or civil, administrative or technical activities, as well as all types of shares, bonds, public funds and any other financial instruments of whatever nature;

3. the conducting of all movable property, real property, financial, industrial, commercial or civil transactions including the acquisition, management, leasing and sale of all movable and real property, related directly or indirectly to the realization of its corporate object or likely to contribute to such realisation."

Places where the public may consult documents

The articles of association of the company are available at the office of the Clerk to the Commercial Court of Brussels and at the company's registered office. The annual reports as well as the annual financial statements and the consolidated financial statements are lodged with the National Bank of Belgium. These documents may also be obtained from the company's registered office. Decisions in relation to appointments and resignations of members of the Board of Directors are published in the Appendix to the Belgian Official Journal. Financial notices concerning the company are published on its website (www.dexia.com). The convocations to Shareholders' Meetings are published on the website and in the financial newspapers, the daily press and periodicals

Dexia's annual report 2018 has been published by the Group's Communication department.
This report is also available in Dutch and French.
In case of discrepancy between the English, the French and the Dutch versions of the Annual Report, the text of the French version shall prevail.
Due to environmental and cost concerns, Dexia decided not to print its annual report. It can be downloaded on www.dexia.com.

Dexia
Place du Champ de Mars, 5
B-1050 Brussels
IBAN BE61-0682-1136-2017
BIC GKCC BE BB
RPM Brussels VAT BE 0458.548.296

In Paris
1, passerelle des Reflets
Tour CBX
F-92913 La Défense Cedex

CONTACTS

Press department
E-mail: pressdexia@dexia.com
Phone Brussels: + 32 2 213 57 39
Phone Paris: + 33 1 58 58 58 49

Investor Relations
E-mail: investor.relations@dexia.com
Phone Brussels: + 32 2 213 57 66
Phone Paris: + 33 1 58 58 58 53

Website
www.dexia.com

FINANCIAL CALENDAR

Shareholders' meeting for the year 2018
15 May 2019

Results as at 30 June 2019
10 September 2019

DEXIA