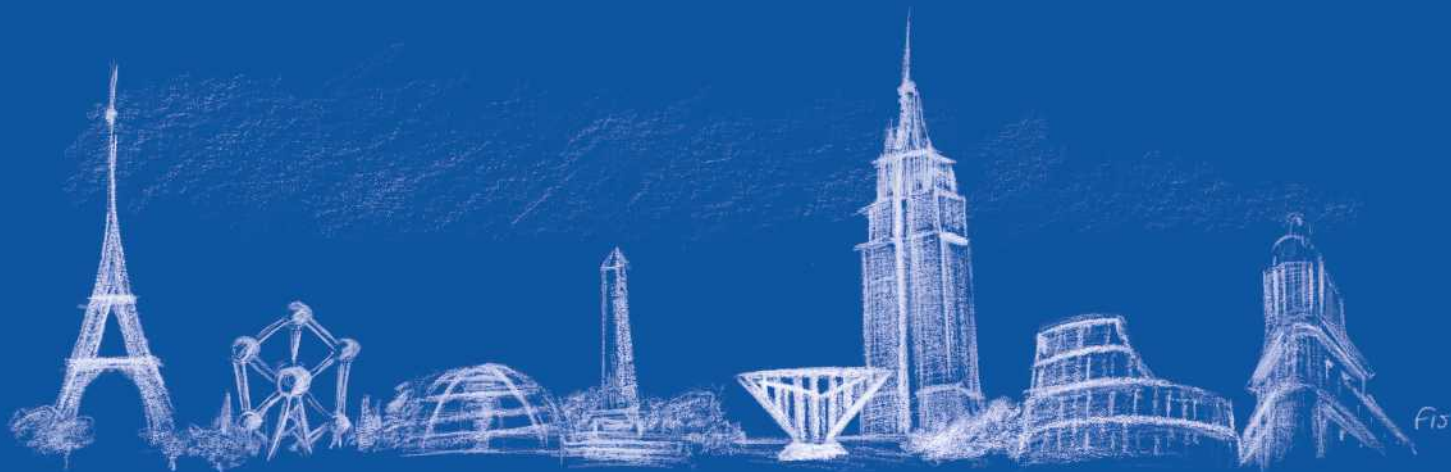


# 2017

ANNUAL REPORT

**DEXIA**



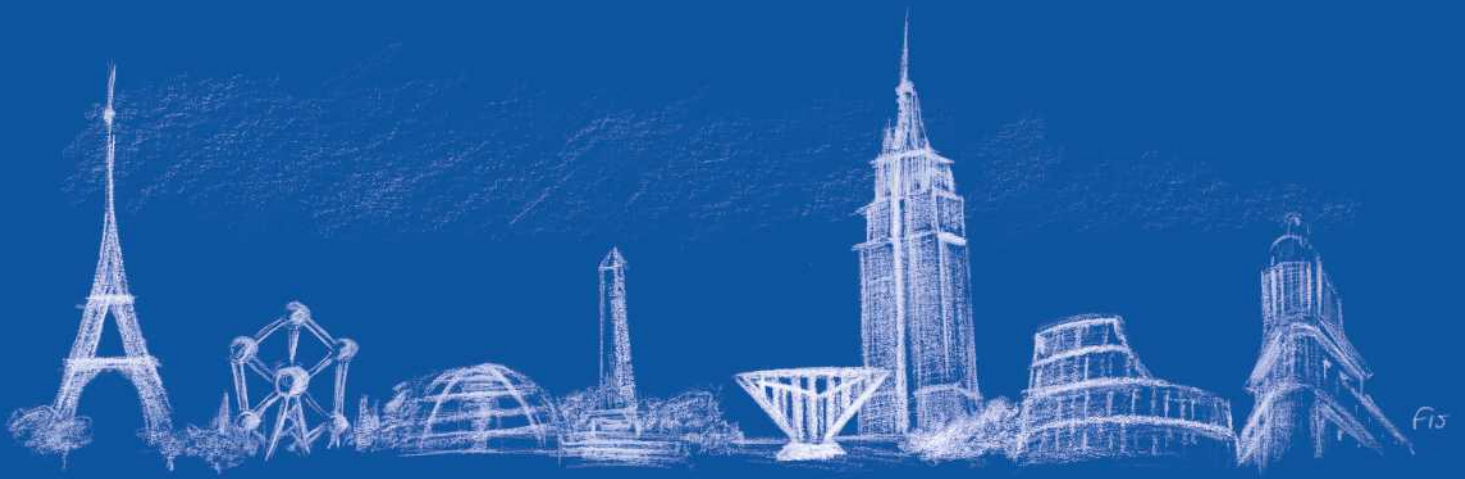


# Annual report 2017

2	Management report
66	Consolidated financial statements
156	Annual financial statements
184	Additional information

4	Message from the Chairmen
6	Group profile
9	Highlights
11	Financial results
15	Risk management
27	Information on capital and liquidity
31	Non-financial declaration - Corporate social responsibility
39	Declaration of corporate governance





# Management report

# Message from the Chairmen



Dear Shareholders,

The year 2017 saw a continuing improvement of the macroeconomic environment, particularly against the background of rising interest rates in the euro zone and the United States. The euro strengthened against the principal currencies and credit spreads tightened, particularly on peripheral European sovereigns.

We took advantage of these favourable conditions to accelerate the reduction of our asset portfolios and to reduce their risk

and complexity. Indeed, we made targeted sales of risky assets, including certain positions linked to the Commonwealth of Puerto Rico, as well as heavily capital-weighted assets such as asset-backed securities and subordinated banking exposures. Furthermore, the improvement of market conditions enabled us to reduce our concentration on certain sectors and counterparties by disposing of sovereign exposures, covered bonds and municipal loans, principally in France and the United States. These operations resulted in particular in a reduction of the size of our balance sheet by 15% over the year, to EUR 181 billion.

At the same time, during the year we significantly improved our liquidity position. Favourable market conditions, marked by abundant liquidity, enabled us to carry out important work to optimise our funding sources and to reduce our funding cost. Funding from central banks gradually fell to zero and was replaced by less costly market funding. This change from central bank funding constitutes an extremely important phase in the Group's resolution since the European Central Bank announced that wind-down entities would no longer have access to the Eurosystem as from January 2022.

Faced with many external uncertainties and increased regulatory requirements, we continued to manage our solvency position proactively. By virtue of the considerable reduction of risk-weighted assets, principally resulting from asset disposals, amplified by the favourable market context, we were able to increase our Total Capital ratio to 20.4% as at 31 December 2017.

Implementation of the IFRS 9 accounting standard as at 1 January 2018 was accomplished in line with the planned timetable. The application of this new accounting standard will have a positive total net impact in the order of EUR 2.8 billion on Group equity as at 1 January 2018, reflected by an improvement of the Group's solvency ratios estimated at 500 basis points<sup>(1)</sup>.

*(1) Excluding impact of phase-in.*

On another front, we continued the initiatives taken to secure our operating model which commenced in 2015 and 2016. The signature with Cognizant of an agreement to outsource our IT and back office activities in France and in Belgium created the foundation for an operating model which will be more resilient over the long term and enable us to respond more effectively to the issues surrounding our orderly resolution, which are management of the reduction of our asset portfolio, operational cost control and risk management.

Finally, the conversion of preference shares into ordinary shares, approved by the extraordinary shareholders' meeting held on 7 December 2017, was a key moment in the continuation of the Group's resolution and will enable us to continue to comply with regulatory solvency requirements.

Globally, even if the net result of the year is negative, Dexia's liquidity and solvency position is far better today than anticipated in the 2012 orderly resolution plan.

Like 2017, 2018 will undoubtedly be another very eventful year for Dexia. We will be continuing various projects to simplify our international network in order to reduce our geographic footprint and to optimise our efficiency at a Group level. After the signature of an agreement to end the litigation involving Dexia in Israel and the deployment of a new strategy, in March 2018 we sold our entire holding in Dexia Israel. Furthermore, we are continuing our project to centralise Dexia's activities in Spain and Portugal, in order to close our branches in Portugal in mid-2018 and in Spain in 2019. Finally, we will continue, in 2018, to assess the different strategic options for the restructuring of our international network, particularly with regard to Dexia Kommunalbank Deutschland.

We will of course remain attentive to the evolution of our cost base and we will seek to improve our efficiency by simplifying our working methods, by rationalising processes and by reducing duplication.

The conduct of the Group's resolution, against an uncertain background and a constantly changing regulatory environment, is only possible with the daily commitment of our staff members. Our teams continue their remarkable work to manage this complex resolution. We thank them most sincerely for their unceasing involvement and their dynamism in the performance of the task facing Dexia.

That task relies on the support of our guarantors, shareholders and a close collaboration with the various stakeholders in the Group's resolution. We would also like to thank them.

**Wouter Devriendt**  
Chief Executive Officer  
Chairman of the Management Board

**Robert de Metz**  
Chairman of the Board of Directors

# Group profile

## A Group in orderly resolution

Dexia<sup>(1)</sup> 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<sup>(2)</sup>.

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 be destabilising to the entire European banking sector.

As a significant bank<sup>(3)</sup>, 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 994 members of staff as at 31 December 2017. 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, Spain, Portugal and subsidiaries in Germany, Italy and Israel<sup>(4)</sup>. These entities also hold local banking licences.

*(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.*

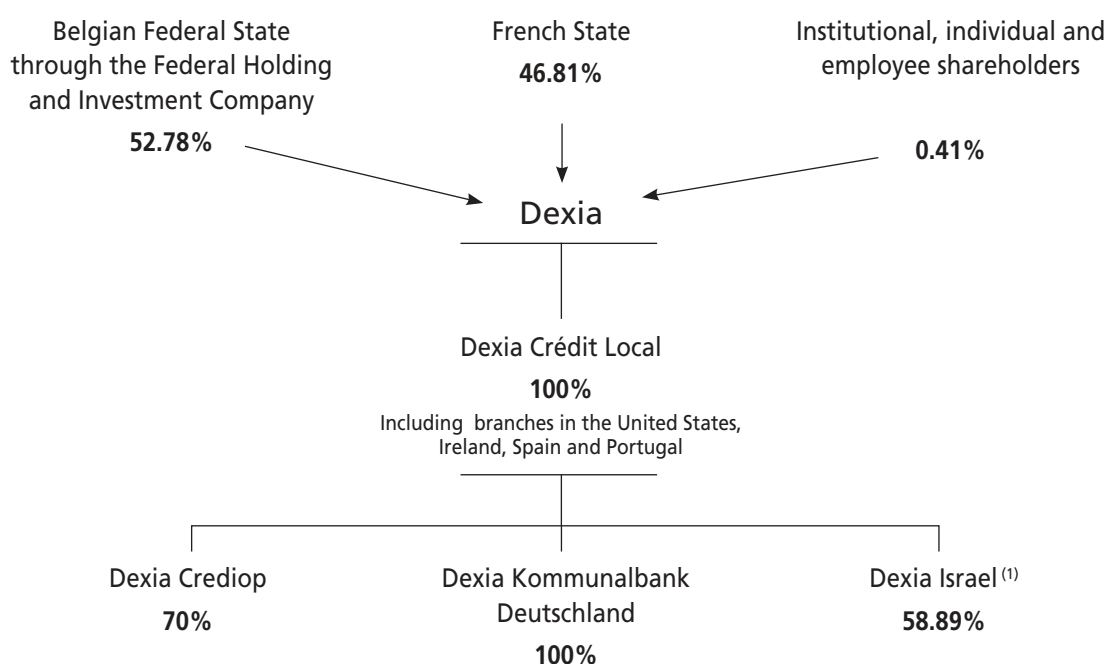
*(3) Regulation (EU) No. 468/2014 of the European Central Bank of 16 April 2014.*

*(4) Entity disposed of in March 2018. Cf. Press Release issued by Dexia on 18 March 2018, available at [www.dexia.com](http://www.dexia.com).*

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:

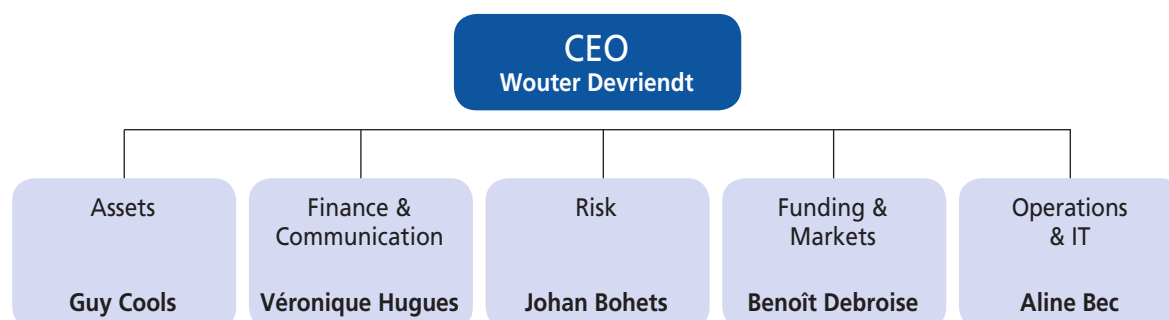
- Maintain the ability to refinance its balance sheet throughout its resolution plan;
- Preserve its capital base in order to comply with regulatory ratios;
- Ensure operational continuity by retaining the necessary expertise and resources and developing appropriate information systems.

## Simplified structure

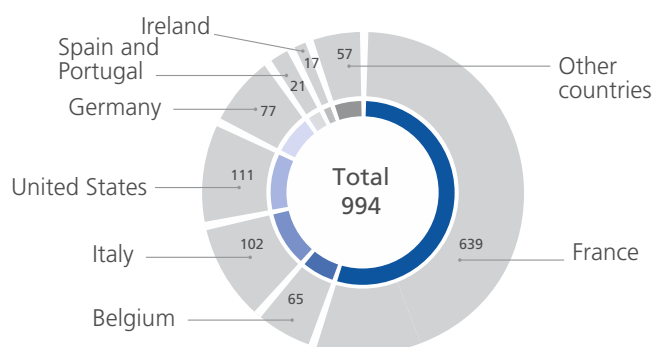


(1) Entity disposed of in March 2018. Cf. Press Release issued by Dexia on 18 March 2018, available at [www.dexia.com](http://www.dexia.com)

## Management Board



## Key figures

MEMBERS OF STAFF  
AS AT 31 DECEMBER 2017

RESULTS (in EUR million)	2016	2017
Net banking income	506	(64)
Costs	(407)	(421)
Gross operating income	99	(485)
Cost of risk	140	33
Net income Group share	353	(462)

BALANCE SHEET (in EUR billion)	31/12/2016	31/12/2017
Balance sheet total	212.8	180.9

SOLVENCY (in EUR million except when indicated)	31/12/2016	31/12/2017
Common Equity Tier 1	7,011	6,496
Total Capital	7,305	6,811
Risk-weighted assets	43,356	33,351
Common Equity Tier 1 ratio	16.2 %	19.5 %
Total Capital ratio	16.8 %	20.4 %

RATINGS AS AT 15 MARCH 2018	Long term	Outlook	Short term
<b>Dexia Crédit Local</b>			
Fitch	BBB+	Stable	F2
Moody's	Baa3	Stable	P-3
Moody's - Counterparty Risk (CR) Assessment	Baa3(cr)		P-3(cr)
Standard & Poor's	BBB	Stable	A-2
GBB Rating	BBB	Stable	-
<b>Dexia Crédit Local (guaranteed debt)</b>			
Fitch	AA-	-	F1+
Moody's	Aa3	Stable	P-1
Standard & Poor's	AA	-	A-1+
<b>Dexia Kommunalbank Deutschland (Pfandbriefe)</b>			
Standard & Poor's	A	Stable	-

# Highlights

In 2017, the Dexia Group continued to implement the orderly resolution plan, approved by the European Commission on 28 December 2012.

The year 2017 was one of rising rates in the euro zone and in the United States, and was marked by a strengthening of the euro against the main currencies as well as a tightening of credit spreads in particular on peripheral sovereigns. Globally, these developments are reflected in the various financial indicators published by the Group in 2017. This environment was favourable to an acceleration of the reduction of risks and the size of the Dexia balance sheet and, in fine, a reduction of the risk borne by the States shareholders and guarantors.

At the same time the Group continued its efforts to transform and to strengthen its operating model aiming for increased flexibility, a reduction of operating risk and a reduction of its costs.

## Progress of the orderly resolution plan

### Dynamic management of the balance sheet and credit risk

In 2017, Dexia intensified its proactive strategy to reduce the balance sheet and risks. This materialises in a reduction of the balance sheet by EUR 10.9 billion over the year, of which EUR 9.9 billion of asset disposals and EUR 1.0 billion of early redemptions. This strategy moreover includes regulatory capital relief measures.

Over the year, Dexia made disposals, revolving around three main axes. On the one hand, the Group targeted heavily capital-weighted assets, such as asset-backed securities (ABS) and subordinated bank exposures, allowing its solvency to be increased. On the other hand, it took advantage of favourable market conditions to dispose of sovereign exposures, covered bonds and municipal loans, particularly in France and the United States. Finally, assets considered to be risky were also sold. This was particularly the case of certain positions linked to the Commonwealth of Puerto Rico for a total amount of EUR 343 million (USD 412 million).

The Group also continued with a policy aimed at encouraging early redemption of certain loans. In 2017, these efforts related in particular to social leasing loans in France.

The Group also took opportunities to reduce the complexity emanating from structured transactions with very long maturities, unwinding certain credit protections. These transactions allowed some "large exposures" to be reduced and had a positive impact on the Group's capital and liquidity.

Combined with natural portfolio amortisation (EUR 9.1 billion), these measures allowed the asset portfolio to be reduced by EUR 20.0 billion at a constant exchange rate, to EUR 94.5 billion as at 31 December 2017. The impact on result was limited.

Dexia Group credit portfolio remains of good quality overall, at 90% of exposures rated investment grade as at 31 December 2017.

The Group pays particular attention to the monitoring and management of certain exposures considered to be sensitive. Dexia remains vigilant as to the evolution of the American local public sector and particularly the Commonwealth of Puerto Rico, where the situation remains fragile. As at 31 December 2017, Dexia's residual exposure was limited to public enterprises linked to the Commonwealth of Puerto Rico and amounted to EUR 88 million. Although entirely covered by credit enhancers, certain distant reimbursement maturities without intermediary amortisation require careful attention. Dexia therefore took total provisions to EUR 35.7 million (USD 42.8 million) as at 31 December 2017.

### Conversion of preference shares

On 7 December 2017, an extraordinary shareholders' meeting<sup>(1)</sup> 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.

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

### Sale of Dexia Israel

In 2017, the agreement signed in 2016 by Dexia Crédit Local, the Union of Local Authorities in Israel (ULAI) and the minority shareholders of Dexia Israel was implemented, ending the litigation involving Dexia Crédit Local in Israel. All the different share classes in existence were unified in one single share class, all listed on the Tel Aviv Stock Exchange. As a consequence of that operation, Dexia Crédit Local now holds 58.89% of the capital of Dexia Israel. At the same time, the composition of the Board of Directors of Dexia Israel was altered to reflect the new shareholder structure.

Furthermore, Dexia Israel was given a new strategy, aimed at improving, and somewhat diversifying the bank's business model as well as its return on equity. Within that framework, Dexia Israel sold a portfolio of municipal loans for an amount of approximately NIS 1.5 billion (EUR 382 million), representing about 25% of the bank's total loan book, and announced the distribution of a dividend of NIS 500 million (EUR 120 million). An amount of NIS 300 million was distributed on 4 January 2018.

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

On 17 March 2018, Dexia Crédit Local agreed on an off-market transaction with a series of qualified investors, involving the sale of all its shares in Dexia Israel Bank (Dexia Israel)<sup>(1)</sup>. The sale was made at a price of NIS 674 per share and the total consideration amounts to approximately EUR 82 million.

The sale of Dexia Israel completes the mandatory divestment process of the Group's commercial franchises, as part of the commitments taken by the French, Belgian and Luxembourg States in the framework of the resolution plan approved by the European Commission in December 2012. As such, it represents an important milestone on the path of the execution of Dexia's resolution.

The impact of the sale, considered to be non-material, will be recorded in Dexia's 1Q 2018 consolidated financial statements.

### **Strengthening the operating model: signature of a services outsourcing agreement with Cognizant**

In order to complete its resolution correctly, the Dexia Group has to look after its operational continuity. In order to adapt its operating model to the requirements of a structure in resolution, the income of which reduces progressively with the reduction of its balance sheet, the Group made the choice, on the one hand, to rely on the outsourcing of certain activities in order to guarantee continuity, whilst offering greater cost flexibility and, on the other hand, to simplify and to integrate its activities, so as to increase resilience.

From this logical viewpoint, on 4 October 2017, Dexia signed an agreement with Cognizant for 10 years, making Cognizant Dexia's strategic partner for IT and the management of operational processes on back office markets and credit activities in France and Belgium<sup>(2)</sup>.

Under the terms of this agreement, Dexia staff members in charge of IT and back office activities join a dedicated company, newly created in France by Cognizant. To allow for a smooth transition, implementation of the agreement is in two phases. IT services were transferred on 1 November 2017 and back-offices will join Cognizant in May 2018.

All in all, approximately 150 Dexia staff members will join the new entity, Cognizant Horizon, benefiting from new career prospects in an expanding Group.

This partnership will be a source of savings for Dexia and will enable it to make its costs structure more flexible, whilst ensuring operational continuity.

### **Announcement by the European Central Bank relating to the end of access to the Eurosystem for wind-down entities**

On 21 July 2017, the European Central Bank announced that access to the Eurosystem for wind-down entities would end as from 31 December 2021<sup>(3)</sup>. The scope of this decision includes the Dexia Group and, more specifically, Dexia Crédit Local, Dexia Crediop and Dexia Kommunalbank Deutschland.

Considering the substantial change of the Group's funding profile since the end of 2012 and the diversification of its funding sources, this decision by the European Central Bank does not affect the Dexia Group's resolution trajectory.

This announcement comes at a time when the Group had already significantly reduced its recourse to Eurosystem funding, this funding source being reduced to nil as at 31 December 2017. Dexia has included this element in the definition of the framework which will enable it to continue its resolution after 2021, the date corresponding to the end of the current orderly resolution plan<sup>(4)</sup>.

Until that measure takes effect, as from the end of 2021, the Group will have the possibility of asking for a maximum of funding of EUR 5.2 billion from the Eurosystem.

Dexia will also retain the option of submitting a request to national central banks for access to Emergency Liquidity Assistance (ELA) in the event of major market disruptions.

### **Increase of the prudential requirements applicable in 2018**

The European Central Bank (ECB) informed Dexia of the qualitative and quantitative regulatory capital requirements which will be applicable to Dexia SA and its main entities as from 1 January 2018, in accordance with Regulation (EU) No 1024/2013 of the Council dated 15 October 2013<sup>(5)</sup>.

In this regard the level of the Total SREP capital requirement applicable to Dexia SA in 2018 has been set at 10.25% on a consolidated basis, compared to 9.875% in 2017.

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

The ECB also informed Dexia that the tailored, pragmatic and proportionate prudential approach, taking account of Dexia's specific and unique situation as a bank in resolution, would be renewed in 2018. Nevertheless, that renewal is accompanied by a convergence towards the general supervisory framework, reflected by the strengthening of certain requirements:

- The requirement applicable by virtue of the Liquidity Coverage Ratio (LCR) amounts, as at 1 January 2018, to a minimum of 100% at company and consolidated levels. If this minimum level is not kept, Dexia will have to guarantee observance of a threshold of 80% at a consolidated level over the year 2018 and to inform the ECB thereof by submitting to it new LCR projections as well as a remediation plan;
- Dexia must nonetheless deduct from its CET1 regulatory capital the economic impact which might be generated by remediation on a failure to observe the constraint regarding large exposures. As at 1 January 2018, this related to one exposure and the deduction from regulatory capital is estimated at EUR 145 million for Dexia SA and EUR 185 million for Dexia Crédit Local<sup>(6)</sup>;
- Finally, the ECB states that it expects Dexia to observe the leverage ratio. As at 31 December 2017, the leverage ratios of Dexia SA and Dexia Credit Local were 4.6% and 3.8% respectively, above the regulatory minimum of 3%.

(1) Cf. Press Release issued by Dexia on 18 March 2018, available at [www.dexia.com](http://www.dexia.com).

(2) Cf. Press Release issued jointly by Dexia and Cognizant on 5 October 2017, available at [www.dexia.com](http://www.dexia.com).

(3) Cf. Press Release issued by Dexia on 21 July 2017, available at [www.dexia.com](http://www.dexia.com).

(4) Cf. Decision by the European Commission dated 28 December 2012 approving the Dexia orderly resolution plan.

(5) Cf. Press Release issued by Dexia on 5 February 2018, available at [www.dexia.com](http://www.dexia.com).

(6) Based on a calculation of own funds taking account of the estimated impact of the IFRS9 first-time adoption.



# Financial results

## Notes regarding the Dexia Group's annual consolidated financial statements 2017

### Going concern

The consolidated financial statements of Dexia as at 31 December 2017 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions underlying the business plan for the resolution of the Dexia Group, listed below:

- The business plan was constructed from market data available at the end of September 2012; the underlying macroeconomic assumptions are reviewed as part of the half-yearly reviews of the overall plan.

In particular, the updates made on the basis of market data observable as at 30 June 2017 and validated by the Board of Directors of Dexia on 14 November 2017 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments to date, such as the final version of the CRD IV Directive and implementation of the IFRS 9 accounting standard from 1 January 2018, based on the assumptions known to date.

The business plan thus revised leads to adjustments in relation to the original plan. These result in a significant change to the trajectory of the Group's resolution as initially anticipated, in particular in terms of profitability, solvency and funding structure, but at this stage they do not raise questions as to the nature and the fundamentals of the resolution;

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

- It moreover assumes that Dexia will retain a sound funding capacity, which relies in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on the Group's capacity to raise secured funding.

Since validation of the orderly resolution plan in December 2012, the Group's funding structure has benefited from an increase of market funding, both secured and guaranteed, at a cost considerably lower than anticipated in the business plan, and for larger volumes and longer maturities. This has enabled the Group, firstly, to exit the exceptional funding mechanisms put in place in 2012 and, secondly, to reduce to zero its reliance on central bank funding as at 31 December 2017<sup>(1)</sup>. Furthermore, Dexia implements a prudent liquidity management and maintains important liquidity reserves.

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

- It is in particular exposed to the evolution of accounting and prudential rules;

- The financial characteristics of Dexia since its entry in resolution do not allow it to ensure constant compliance with certain regulatory ratios over the resolution period.

The Dexia Group is also sensitive to the evolution of its macroeconomic environment and to market parameters, including exchange rates, interest rates and credit spreads, fluctuations of which are liable to impact the business plan. In particular, an unfavourable evolution of these parameters over time may weigh on the Group's liquidity and its solvency position, by increasing the amount of cash collateral paid by Dexia to its derivatives counterparties or an impact on valuations of the financial assets and liabilities and OTC derivatives, fluctuations of which are booked in the income statement and are liable to result in a fluctuation of the AFS reserve and the level of the Group's regulatory capital.

- Finally, if market demand for government-guaranteed debt were to decline, Dexia may need to turn to more costly funding sources which would directly impact the profitability assumed in the original business plan.

### Analytical segmentation

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 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.

### Classification as "Activities held for sale"

In accordance with the IFRS 5 standard, Dexia Israel has been classified under "Activities held for sale" in the Dexia financial statements as at 31 December 2017. The assets and liabilities of Dexia Israel have been reclassified in a separate line in the Groups' consolidated balance sheet. As the activity of Dexia Israel is not considered a discontinued activity in the sense of the IFRS 5 standard, its income statement has not been presented in a separate line in the Group's consolidated income statement.

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

## Replacement of the IAS 39 standard “Financial Instruments: Accounting and Valuation” by the IFRS 9 standard “Financial Instruments” as at 1 January 2018

The project associated with implementation of the IFRS 9 standard by the Group progressed in line with the planned schedule. The application of IFRS 9 will have a positive total net impact on Group equity as at 1 January 2018 in the order of EUR 2.8 billion. That impact is explained principally by two elements:

- The reclassification of loans and securities:
  - Reclassification of assets available for sale to the category “amortised cost”, involving a significant positive impact linked to the cancellation of latent gains and losses observed in equity under IAS 39. The amount of those latent reserves in Group share was EUR -3.5 billion as at 31 December 2017.
  - Reclassification of debt securities and structured loans, principally from “amortised cost” to the category “fair value through profit and loss”: the impact of taking the fair valuation of these assets is negative.
  - Reclassification of debt securities and loans held for sale from “amortised cost” (IAS 39) to the category “fair value through equity” (IFRS 9): the expected impact is negative, as credit spreads have generally widened from inception.
- The implementation of a new credit risk provisioning model: Dexia only expects a limited impact from this new mode of provisioning, reflected by an increase of provisions in the order of EUR 0.2 billion.

Some derivative hedging assets, now recorded at fair value through profit and loss, can no longer be considered as hedging derivatives under IFRS, even if they were under IAS39, and will therefore be classified under IFRS 9 as transaction derivatives. They will still be considered from a regulatory viewpoint as derivatives of the banking book (and not the trading book). The volatility associated with the interest rates of these assets will still be offset by hedging derivatives, but the volatility associated with credit risks will remain and therefore impact accounting and regulatory capital. The definitive impact on Dexia's regulatory capital will also depend on the prudential filters and adjustments which will be applied to Dexia's equity capital under IFRS 9.

In December 2017, the European Parliament amended the CRR and offered credit institutions the possibility to make use of phase-in provisions, which enable the impact on equity resulting from implementation of the new IFRS 9 provisioning model on solvency ratios to be spread over five years. These are applied to the amount of additional provisions for credit risk as at 1 January 2018 (“static” phase-in). They are also applied to additional amounts of provisions associated with financial assets in bucket 1 and in bucket 2 according to the IFRS 9 approach, constituted during the five-year transition period (“dynamic” phase-in). In 2018 Dexia informed the supervisory authorities that it was asking for this phase-in.

Not taking the phase-in into account, the total impact of implementation of the IFRS 9 standard on Dexia's Total Capital Ratio as at 1 January 2018 is estimated at 500 basis points.

## Income statement presentation

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

- Recurring elements related to the carry of assets, such as portfolio income, funding costs, operating charges, cost of 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 related to financial instruments held for trading and the variation of the WISE portfolio (synthetic securitisation of a portfolio of enhanced bonds);
- Non-recurring elements: elements of an exceptional nature, not liable to be regularly reproduced, in particular including gains and losses, linked to credit spread, on the disposal of holdings and assets, costs and gains associated with litigation, restructuring costs.

## Analysis of the consolidated income statement

During the year 2017, the Dexia Group booked net income Group share of EUR -462 million.

Over the year, net banking income was negative, at EUR -64 million. This amount not only includes the cost for carrying the assets, but also, in particular, negative impacts of the valuation of derivatives, results on the disposal of assets and provisions for legal risk.

Costs were EUR -421 million and included EUR -89 million of taxes and regulatory contributions.

Gross operating income was EUR-485 million.

The cost of risk and net gains and losses on other assets contributed positively to the result, in an amount of EUR +35 million, of which EUR +33 million attributable to the cost of risk. This positive amount is principally explained by reversals of provisions, in particular on assets disposed of during the year, in spite of the increase of the provisioning on Puerto Rico.

Considering these elements, pre-tax income was EUR -450 million.

Over the year, the tax charge was EUR -13 million.

Result from discontinued operations was EUR 2 million.

The income attributable to minority interests was EUR 1 million, leading to a net income Group share for the year 2017 of EUR -462 million.

**CONSOLIDATED INCOME STATEMENT - ANC FORMAT**

(in EUR million)	2016	2017
<b>Net banking income</b>	<b>506</b>	<b>(64)</b>
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	(407)	(421)
<b>Gross operating income</b>	<b>99</b>	<b>(485)</b>
Cost of risk	140	33
Net gains or losses on other assets	54	2
<b>Pre-tax income</b>	<b>293</b>	<b>(450)</b>
Income tax	42	(13)
Net result from discontinued operations	17	2
<b>Net income</b>	<b>352</b>	<b>(461)</b>
Minority interests	(1)	1
<b>Net income Group Share</b>	<b>353</b>	<b>(462)</b>

**Analytical presentation of the results for the period**

The net income Group share of EUR -462 million is composed of the following elements:

- EUR -302 million attributable to recurring elements;

- EUR -64 million associated with accounting volatility elements;

- EUR -96 million generated by non-recurring elements.

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

**ANALYTICAL PRESENTATION OF 2017 RESULTS OF THE DEXIA GROUP**

(in EUR million)	Recurring elements	Accounting volatility elements	Non-recurring elements	Total
<b>Net banking income</b>	<b>79</b>	<b>(64)</b>	<b>(79)</b>	<b>(64)</b>
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	(400)	0	(21)	(421)
<b>Gross operating income</b>	<b>(321)</b>	<b>(64)</b>	<b>(100)</b>	<b>(485)</b>
Cost of risk	33	0	0	33
Net gains or losses on other assets	0	0	2	2
<b>Pre-tax income</b>	<b>(288)</b>	<b>(64)</b>	<b>(98)</b>	<b>(450)</b>
Income tax	(13)	0	0	(13)
Net result from discontinued operations	0	0	2	2
<b>Net income</b>	<b>(301)</b>	<b>(64)</b>	<b>(96)</b>	<b>(461)</b>
Minority interests	1	0	0	1
<b>Net income Group Share</b>	<b>(302)</b>	<b>(64)</b>	<b>(96)</b>	<b>(462)</b>

**Recurring elements**

The net income Group share generated by recurring elements was EUR -302 million over the year 2017.

Net banking income in 2017 was EUR 79 million, and consisted of:

- The net interest margin, which includes income from asset portfolios and the funding cost, amounted to EUR +170 million. Over the year, income showed a falling trend, with the effect of the reduction of asset portfolios. At the same time, the funding cost followed a similar trend, considering the reduction of volumes to be refinanced, optimisation of the funding mix and favourable market conditions. The fall in the net interest margin is principally explained by the reduction of transformation income;

- Other income, in a negative amount of EUR -91 million. This negative income is principally due to an adjustment of accounting hedge relations, in order in particular to take account of the impact of asset disposals.

Costs were EUR -400 million, including an amount of EUR -89 million for taxes and regulatory contributions, for the most part booked in the first quarter, in application of the IFRIC 21 standard. Excluding these taxes and contributions, operating costs showed a falling trend, illustrating the cost control efforts undertaken by the Group.

The cost of risk had a positive impact over the year, at EUR 33 million, principally explained by reversals of provisions, in particular on assets disposed of. Taking account of the provisioning of residual exposures, the annual net impact of provisions related to the Commonwealth of Puerto Rico was EUR -58 million.

The tax charge is negative, at EUR -13 million.

### Accounting volatility elements

Accounting volatility elements had a negative impact of EUR -64 million. This amount is explained by the impact of variations in market parameters over the year, the unfavourable evolution of derivative valuation on the basis of an OIS curve, in part offset by the positive evolution of CVA and FVA. Moreover, disposals and early redemptions during the year had a positive impact on accounting volatility elements.

### Non-recurring elements

The contribution of non-recurring elements booked over the year was EUR -96 million. These elements consist in particular of:

- Losses associated with active balance sheet management (EUR -41 million over the year);
- A positive net impact of EUR 14 million from variations of provisions for legal risk;
- Provisions for restructuring costs of EUR -19 million;
- The impact of the breakdown of accounting hedge relations on public enterprises linked to the Commonwealth of Puerto Rico, which amounted to EUR -54 million.

### Evolution of the consolidated balance sheet

As at 31 December 2017, the Group's consolidated balance sheet total was EUR 180.9 billion, down

EUR -31.8 billion on 31 December 2016 as a result of a dynamic policy of asset portfolio reduction combined with the evolution of the macroeconomic environment.

Over the year, at a constant exchange rate, the reduction of the assets side of the balance sheet was principally associated with the reduction of the asset portfolio by EUR -20 billion, of which EUR -10.9 billion associated with asset disposals or early redemptions and EUR -9.1 billion with natural portfolio amortisation, a decline of the fair value of assets and derivatives of EUR -9.7 billion, a EUR -6.5 billion reduction of the amount of cash collateral paid by the Group to its derivatives counterparties, against a background of rising long-term interest rates. This was partially offset by a EUR +7.3 billion increase of the Group's liquidity reserve placed on deposit with central banks, against a background of the reduction of its access to Eurosystem funding.

On the liabilities side, at a constant exchange rate, the evolution of the balance sheet is principally reflected by a EUR -15.9 billion reduction of the stock of market and European Central Bank funding, a EUR -11.2 billion decline of the fair value of liabilities and derivatives.

The impact of exchange rate variations on the evolution of the balance sheet amounted in total to EUR -2.8 billion over the year.

The balance sheet of Dexia Israel, classified under "Activities held for sale" represented EUR 2.1 billion as at 31 December 2017.

# Risk Management

## Introduction

In 2017, the Risks activity line continued Dexia's active risk management, in particular with the introduction of weekly production of indicators for the Risk Appetite Framework (RAF) mechanism. This mechanism was enhanced during the year and includes operational risk and activity continuity indicators associated with the transitional phase of the outsourcing of IT and back office services. Its task is to define the principles for assessing any difference in the risk profile compared to the strategic plan approved by the Group's executive bodies.

The year was one of rising rates in the euro zone and in the United States, and was marked by a strengthening of the euro against the principal currencies as well as a tightening of credit spreads in particular on peripheral sovereigns. This environment was favourable to an acceleration of the reduction of Dexia balance sheet. The Group thus made disposals which revolved around three principal axes. On the one hand, it targeted heavily capital-weighted assets, such as asset-backed securities (ABS) and subordinated bank exposures. On the other hand, it took advantage of favourable market conditions to dispose of sovereign exposures, covered bonds and municipal loans, particularly in France and in the United States. Finally, assets considered to be risky were also sold, particularly certain positions associated with the Commonwealth of Puerto Rico. The Group also continued with its policy aimed at encouraging early redemptions of certain loans. The cost of risk had a positive impact, at EUR 33 million. This positive amount is explained by reversals of provisions, particularly on assets disposed of during the year, in spite of the provisioning of the residual exposure on Puerto Rico. Overall, the portfolio presents good credit quality, with 90% of Group exposures rated investment grade.

The project to outsource IT and back-office services was formalised by an agreement signed in October 2017 in partnership with Cognizant; it marks an important stage in securing the operating model. In addition, Cognizant's technological assistance will enable Dexia to create an appropriate investment framework to strengthen its IT infrastructure.

As in 2016, Dexia took part in the transparency exercise organised by the European Banking Authority (EBA), the elements and conclusions of which were published at the end of November 2017. That exercise aimed at providing detailed and harmonised information on the balance sheets and loan portfolios of the main European banks.

In 2018 Dexia will take part in the Targeted Review of Internal Models, which will be completed by an exercise to homologue the Stressed VaR model.

## 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 the level of tolerance of both current and future risk, as defined by the Board of Directors. It assists the Board of Directors in its supervision of the implementation of that strategy.

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

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

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

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

*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

The decision-taking body of the Risk activity line is its Executive Committee.

As at 31 December 2017, this committee consists of the head of Risks and the six heads of:

- The credit risk department,
- The market risk department,
- The operational risk department,
- The strategic risk and regulatory supervision department,
- The comprehensive risk assessment department,
- The governance, reporting and risk systems 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 monitoring defaults 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.

### 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 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. In 2017 this annual review was reflected by the integration of activity continuity indicators associated with the transition phase of the IT and back office outsourcing project, in order to assess and to analyse the operational risks associated with the implementation of such projects. It also allowed definition of the principles of assessment and integration in the RAF of any difference in the risk profile compared to the approved strategic plan.

### 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 risk 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 impairments and collective 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.



ality, 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 Risks 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 Risks 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 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 managements of the main regulatory developments, asks for and organises the various impact analyses and liaises with the various international entities on the implementation of new reforms.

### ICAAP/ILAAP

In 2017, Dexia established the Stress Tests and Pillar II Committee under the joint responsibility of the Finance and Risk activity lines in order to guarantee 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 requirements formulated within the framework of the

SREP. This committee approves all of these subjects prior to their submission to the Management Board, the Risk Committee and the Board of Directors.

## 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.

As at 31 December 2017, Dexia's credit risk exposure was EUR 141.9 billion, compared with EUR 164.7 billion at the end of December 2016, a fall of 14%, associated with natural portfolio amortization as well as asset disposals and early redemptions.

Exposure was for EUR 73 billion in loans and EUR 58 billion in bonds. It is for the most part concentrated in the European Union (76%) and the United States (12%).

#### DEXIA GROUP EXPOSURE BY GEOGRAPHIC REGION

(in EUR million)	31/12/2016	31/12/2017
France	25,484	28,201
Italy	25,512	23,002
United Kingdom	25,461	22,178
Germany	20,689	17,835
United States	23,897	17,483
Spain	14,154	10,136
Japan	7,479	6,152
Portugal	3,905	3,924
Canada	2,655	2,071
Belgium	2,035	1,648
Austria	1,118	1,058
Central and Eastern Europe	1,843	954
Scandinavian countries	1,229	528
Southeast Asia	620	451
South and Central America	490	430
Switzerland	399	357
Turkey	367	169
Netherlands	390	130
Greece	128	88
Luxembourg	85	38
Ireland	103	10
Hungary	275	2
Others <sup>(1)</sup>	6,347	5,039
<b>TOTAL</b>	<b>164,665</b>	<b>141,881</b>

(1) Including supranationals and Israel.

As at 31 December 2017 the majority of exposures remained concentrated on the local public sector and sovereigns (74%), taking account of Dexia's historical activity.

Exposure on France increased following the deposit of a significant part of the Group liquidity reserve with the Bank of France.

#### DEXIA GROUP EXPOSURE BY CATEGORY OF COUNTERPARTY

(in EUR million)	31/12/2016	31/12/2017
Local public sector	89,298	75,621
Central governments	25,458	29,701
Financial institutions	20,123	13,174
Project finance	13,515	11,652
ABS/MBS	6,600	4,424
Corporate	7,607	5,807
Monolines	2,062	1,500
Individuals, SME and self-employed	2	1
<b>TOTAL</b>	<b>164,665</b>	<b>141,881</b>

The quality of the Dexia credit portfolio remained high, with 90% of exposures rated investment grade as at 31 December 2017.

Distribution by rating now takes account of the seniority of ratings – but this adjustment has a very minor impact on distribution by class.

#### GROUP EXPOSURE BY RATING\*

	31/12/2016	31/12/2017
AAA	17.6%	21.0%
AA	18.5%	14.9%
A	24.2%	25.2%
BBB	29.4%	29.3%
<i>Non Investment Grade</i>	9.2%	8.4%
D	0.9%	0.8%
Not Rated	0.3%	0.4%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

\* Internal rating system

Particular attention is paid to the 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 2017 are presented in the following paragraphs.

#### GROUP SECTOR EXPOSURE TO CERTAIN COUNTRIES

(in EUR million)	Total	o/w local public sector	o/w corporate and project finance	o/w financial institutions	o/w ABS/MBS	o/w sovereign exposures	o/w monolines
France	28,201	12,915	3,064	1,989	0	10,233	0
Italy	23,002	9,739	399	609	9	12,247	0
United Kingdom	22,178	11,038	8,220	1,019	1,471	61	369
Germany	17,835	15,165	177	2,286	0	208	0
USA	17,483	9,684	611	2,514	2,399	1,144	1,131
Spain	10,136	5,489	1,777	2,067	395	407	0
Japan	6,152	4,511	0	1,055	0	585	0
Portugal	3,924	1,698	86	14	75	2,050	0
Poland	488	1	0	0	0	486	0
Turkey	169	2	0	167	0	0	0
Greece	88	3	85	0	0	0	0
Ireland	10	0	7	2	0	0	0
Hungary	2	2	0	0	0	0	0

#### Dexia Group commitments on sovereigns

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

Sovereign exposure on France, in an amount of EUR 10.2 billion as at 31 December 2017, includes a significant part of the Group liquidity reserve, on deposit with the Bank of France.

In 2017, Dexia took advantage of favourable conditions to dispose of some of its sovereign exposure, in particular in Poland (EUR -672 million).

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

Over the year, Dexia continued its policy of assisting French local authorities, in order to reduce its outstanding of sensitive structured credits, which appear on the Dexia balance sheet at EUR 616 million as at 31 December 2017.

#### Spain

The Spanish State's support to the regions and municipalities continued through the renewal of several financial support funds: EUR 31 billion was paid to the regions in 2017, particularly by the Autonomous Liquidity Fund (FLA). In consideration for such aid, the State control over regional or local finances was increased: the expected deficit of the regions should be reduced to -0.6% of GDP in 2017 (against a target of -0.7% of GDP in 2016).



Catalonia and Valencia are two large Spanish regions which are not major centres of economic attractiveness for Spain. Their financial situation remains tense and comparable (negative savings, heavy indebtedness, tight liquidity, dependence on short-term refinancing). Dexia Group's exposure to Catalonia and Valencia amounted to EUR 1.7 billion and EUR 0.7 billion respectively. The year 2017 was marked by political tensions between the Catalan regional government and the Spanish government. In mid-September, the Spanish State took over the region's treasury and guaranteed payments. No payment incident was recorded on direct or indirect exposures to those two regions and their satellites.

### United States

In 2017, Dexia remained extremely vigilant as to the evolution of the US public sector, in particular the Commonwealth of Puerto Rico, where the situation remains fragile. The federal board for the financial rehabilitation of the Commonwealth included the central government debt on Puerto Rico, the majority of the public service enterprises and civil servant retirement pension funds under Chapter III<sup>(1)</sup> of the PROMESA Law, promulgated by Congress in 2016. These entities have ceased payments. When their obligations are subject to insurance by monolines, service of the debt is taken over by the latter.

In September 2017 the island was severely hit by Hurricane Maria. A first federal aid plan of USD 15 billion was passed in September, and emergency aid was paid in October.

Against that background, Dexia decided to dispose of certain positions on Puerto Rico, for a total of EUR 343 million (USD 412 million). The Dexia Group's residual exposure amounted to EUR 88 million as at 31 December 2017 and was limited to public enterprises associated with the Commonwealth of Puerto Rico. Although entirely covered a monoline, certain distant redemption maturities without intermediary amortisation require careful attention. Total provisions amounted to EUR 35.7 million (USD 42.8 million) as at 31 December 2017.

Furthermore, Dexia is also closely monitoring the financial situation of the Chicago Board of Education (CBOE), in view of the very high debt level, under-financing of pension funds and the ongoing decline of student registrations. These difficulties are amplified by the delay of the State of Illinois in paying subsidies to the CBOE. As a consequence, the latter increased its portion of short-term financing, the conditions of access to which have hardened. The year 2017 should close with a significant deficit as well as a relatively low liquidity level. The budget for 2018 was approved in an amount of USD 5.7 billion and in particular includes aid from the State of Illinois (USD 300 million), the city of Chicago (USD 269 million) and the proceeds of new real estate taxes. In view of the reaffirmed support of the State of Illinois, the credit profile of the CBOE has stabilised: it continues to meet its commitments and has pre-financed the service of its financial debt until March 2018. Dexia's exposure to the CBOE amounted to EUR 417 million and total provisions to EUR 33 million (USD 40 million) as at 31 December 2017.

### Dexia Group commitments to project finance and corporates

The project finance and corporate loans portfolio amounted to EUR 17.4 billion as at 31 December 2017, down 17% on the end of 2016. Beyond natural amortisations and certain early redemptions, this portfolio contracted on the one hand as a

result of opportunistic disposals, the fall of the fair value component and, on the other hand, as a result of exchange rate effects (particularly in the UK Utilities sector).

This portfolio consists 67% of project finance<sup>(2)</sup>, the balance being in finance to corporates, such as financing for acquisitions, commercial transactions or corporate bonds. Dexia is following a policy of disengagement vis-à-vis its counterparties, and in 2017 disposed of positions in the Utilities sector for an amount of EUR 2.5 billion.

The portfolio is good quality: 76% project finance and 96% finance to corporates rated investment grade.

Furthermore, the diplomatic crisis between Qatar and its neighbours is being monitored carefully. Dexia Group exposure to Qatar corresponds to the financing of nine projects for an exposure of EUR 283 million. They correspond either to desalination / electricity production plants or the production / transport of natural gas (LNG). All of these projects are of very good quality and do not appear to be impacted to date by the diplomatic crisis.

### Dexia Group commitments to ABS

In 2017, Dexia committed to a voluntary reduction of its ABS portfolio. Under favourable market conditions, the Group disposed of EUR 1.8 billion in assets over the year, in particular ABS on US government student loans. As a consequence, as at 31 December 2017, the Group's ABS portfolio was down 33%, to EUR 4.4 billion. The ABS portfolio on student loans still represents a major part of the portfolio (EUR 2.4 billion). These loans are guaranteed in an amount of EUR 2.3 billion 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 0.6 billion, of which EUR 0.3 billion in Spain.

The quality of the portfolio remained stable overall with 97% of the portfolio rated investment grade at the end of December 2017, almost all of the tranches in which Dexia has invested being at a senior level.

### Dexia Group commitments to financial institutions

Dexia Group commitments to financial institutions amounted to EUR 13.1 billion as at 31 December 2017, down EUR 6.9 billion since December 2016. Commitments consist 72% of bonds, covered bonds and repo operations with financial institutions. The balance includes exposures associated with loans to financial institutions and derivatives.

Dexia exposures are concentrated 19% in the United States and 67% in Europe, principally in Spain (16%), Germany (17%), France (15%) and the United Kingdom (8%). The portfolio's credit remained stable overall in 2017.

In 2017, Dexia paid particular attention to the situation of Spanish banks, considering the tense political situation in Catalonia. The Group's exposure to the Spanish banking sector was principally concentrated on investment grade issuers and was composed of Spanish covered bonds with a limited exposure to Catalan banks (EUR 126 million).

Finally the evolution of the Deutsche Bank Group, the situation of which stabilised in the spring by virtue of a recapitalisation of EUR 8 billion, was monitored carefully. Dexia's exposure to that Group amounted to EUR 0.9 billion as at 31 December 2017.

(1) Chapter III is a general regime for restructuring public debts under the aegis of a tribunal for which the judge was appointed by the Head of the Supreme Court of the United States, inspired by Chapters 9 and 11 of the Federal Bankruptcy Act.

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

### Dexia Group commitments to monolines

Dexia is indirectly exposed to the quality of the signature of monolines, through insurance contracts to cover the timely end of certain types of bonds issued in the form of securities or loans. Through their insurance policy, these monolines irrevocably and unconditionally undertake to repay the principal and interest payable on credits in the case of the underlying counterparty defaulting. In certain cases this activity also results in a reduction of capital requirements.

Dexia carefully monitors the financial situation of monolines which were particularly affected by the climatic events in the autumn of 2017 in particular in Puerto Rico.

As at 31 December 2017, EUR 13.9 billion of the Dexia portfolio was insured by monolines, including 93% of assets insured by monolines rated investment grade by one or more rating agencies. All but FGIC continue to pay all claims on time and in full.

### Impairment on counterparty risk - Asset quality

<b>ASSET QUALITY</b>		
(in EUR million)	31/12/2016	31/12/2017
Impaired assets	1,064	877
Specific impairments <sup>(1)</sup>	321	257
Coverage ratio <sup>(2)</sup>	30.2 %	29.3%
Collective provisions	416	331

(1) Impairments on loans and advances to customers and on fixed income instruments classified as available for sale.

(2) Ratio between the specific impairments and the impaired assets.

Dexia's stock of impaired assets amounted to EUR 877 million as at 31 December 2017, down EUR 188 million on the end of 2016. Specific impairments allocated amounted to EUR 257 million, down EUR 65 million on 31 December 2016.

This fall of impaired assets and specific impairments is essentially explained by the exposures to Spanish motorway projects and public enterprises associated with the Commonwealth of Puerto Rico as well as the latest Dexia outstanding on the city of Athens.

Furthermore, the restructuring of several impaired assets enabled the provisions on those exposures to be reversed.

As a consequence, the coverage ratio was at 29.3% as at 31 December 2017.

In addition to specific impairments, Dexia had collective (statistical and sector) provisions in a total amount of EUR 331 million as at 31 December 2017, against EUR 416 million as at 31 December 2016.

The observed fall is principally due to the reduction of the calculation basis for collective provisions following disposals and redemptions.

To facilitate monitoring and comparison between the various European banks, the European Banking Authority harmonised the definition of Non-Performing Exposure (NPE) and Forbearance.

- Non-performing exposure includes outstanding unpaid for more than 90 days for which the Group thinks that the counterparty is unable to repay without the implementation of guarantees. As at 31 December 2017 outstanding on non-performing exposures was EUR 1.6 billion, corresponding to 97 counterparties.

- The definition of forbearance groups together facilities granted by banks to counterparties experiencing or about to experience financial difficulties in dealing with their com-

mitments (facilities which banks would not otherwise have granted). As at 31 December 2017, 57 counterparties were the object of forbearance, in an outstanding amount of EUR 1.1 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) is a measure of the expected potential loss with a 99% confidence interval and for a holding period of ten days. Dexia uses a number of VaR approaches to measure the market risk inherent in its portfolios and activities:

- Directional interest rate risk and foreign exchange risk are measured via a parametric VaR approach using a methodology based on the assumed normal distribution of yields relating to various risk factors.

- Credit spread risk (also known as specific interest rate risk) and other risks in the trading portfolio are measured using a historical VaR approach the distribution of which is constructed by applying historical scenarios for the relevant risk factors associated with the current portfolio.

- Limits in terms of position, maturity, market and authorised products are put in place for each type of activity, ensuring consistency between overall value limits and operational thresholds used by front office.

Stress testing completes the risk management system by exploring a range of events outside the probability framework of VaR measurement techniques. The various assumptions underlying stress test scenarios are regularly revised and updated. The results of consolidated stress tests and the corresponding analysis are presented quarterly to the Risk Committee.

### 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.

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 market activities of the trading portfolios is presented in the following table. At the end of December 2017, total consumption in VaR was EUR 3.3 million against EUR 8.2 million at the end of 2016.

**VALUE AT RISK FROM THE MARKET ACTIVITIES OF THE TRADING PORTFOLIOS 2017**

(in EUR million)	2016				2017			
VaR (10 days, 99%)	Interest and FX	Spread (Trading)	Other risks	Total	Interest and FX	Spread (Trading)	Other risks	Total
Average	6	2.8	0.2	9	2.5	3.8	0.1	6.5
End of period	4	4.1	0.2	8.2	1.5	1.8	0.1	3.3
Maximum	10.4	4.1	0.2	14	3.0	4.2	0.1	7.3
Minimum	2.4	2.3	0.2	5.1	1.5	1.8	0.1	3.3

**Sensitivity of portfolios classified as “available for sale” to the evolution of credit spreads**

The sensitivity of the AFS reserve for available-for-sale portfolios to an increase in credit spreads is closely monitored. At the end of 2017, this sensitivity amounted to EUR -10 million for a one basis point increase in credit spreads, against EUR -13 million at the end of 2016. Sensitivity to interest rate fluctuations is extremely limited, as interest rate risk is hedged.

**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 +13.9 million as at 31 December 2017, compared with EUR +8.8 million as at 31 December 2016. This is in line with the ALM strategy, which seeks to minimise income statement volatility.

(in EUR million)	2016	2017
Sensitivity	+ 8.8	+13.9
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 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 minimise volatility in the Group's results.

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.

The Group's liquidity reserves consist of assets eligible for central bank refinancing facilities to which Dexia has access.

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 extended in 2016 and 2017.

The ECB informed Dexia that this approach would be renewed in 2018<sup>(1)</sup>. Nevertheless, that renewal is 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). Indeed the requirement applicable to Dexia by virtue of the Liquidity Coverage Ratio (LCR) amounted, as at 1 January 2018, to a minimum of 100% at company and consolidated levels. If this minimum level is not kept, Dexia will have to guarantee observance of a threshold of 80% at a consolidated level over the year 2018 and to inform the ECB thereof by submitting to it new LCR projections as well as a remediation plan.

The Dexia Group posted a consolidated LCR ratio of 111% as at 31 December 2017, against 80% as at 31 December 2016.

(1) Cf. Dexia Press Release dated 5 February 2018, available at [www.dexia.com](http://www.dexia.com).

## Operational risk and IT systems security

### Dexia's policy for 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 has been identified as one of the pillars of Dexia's strategy within the context of its orderly resolution.

This risk is monitored within the framework of the standard approach determined by the Basel regulatory methodology. Under this methodology, information relating to the operational risk must be transferred to the managers in charge of monitoring this risk, and the tasks identified as critical must be monitored.

The operational risk management system relies on the following components:

- Operational risk database: the systematic capture and monitoring of operational incidents is one of the most important requirements of the Basel Committee. Fulfilling its regulatory obligations, Dexia 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 42% 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;

- Activity continuity management: all the activities take place in a secure environment. The business lines establish impact analyses for vital activities in the case of disaster or interruption. They define and then regularly update recovery plans. Dexia applies the Basel standard approach to calculate regulatory capital for operational risk management.

### Management of operational risk during the period of resolution

The transformation of the Dexia Group within the context of its orderly resolution is by nature propitious to the development of operational risks. In 2017, the operational risk department developed several initiatives to strengthen the analysis, measurement and management of those risks:

- Definition and introduction of operational continuity risk indicators in particular enabling the Management Board and Board of Directors to monitor IT, HR and outsourcing risks;
- Development of a new more complete and granular methodology for analysis of the causes and consequences of operational incidents;
- Application of that risk analysis to the transformation of activities (outsourced activities and financial market activities) and to the main mapped critical processes of the Group and the definition and monitoring with the business lines of action plans to reduce and to limit the highest operational risks over the short and medium term.

## Stress tests

### Stress tests and scenario analyses

Dexia performs many scenario analysis exercises and stress tests in a transversal and integrated approach to the Group's risk management process.

These exercises used for the purposes of internal guidance also helps to ensure the observance of regulatory requirements in that regard, particularly those relating to Pillar II and the ICAAP and ILAAP processes defined by the European Central Bank and the EBA guidelines "Common procedures and methodology for Supervisory Review and Evaluation Process (SREP Guidelines)" and "EBA guidelines on institutions' stress testing". In association with those requirements, a complete stress test programme is implemented to guarantee consistent articulation between the various types of stress (particularly market, Pillar I credit and liquidity).

As in 2016 stress tests in addition to those performed within the ICAAP / ILAAP framework were applied:

- Specific credit stress tests for the main asset classes. In particular, within the framework of Basel Pillar 1, the credit exposures covered by internal rating systems were subjected to sensitivity tests, of macroeconomic, historic and expert scenarios. The results of the stress tests are contrasted with the results of the risk and capital approach on credit risk;
- Market stress tests (highlighting potential events outside the probability of VaR measurement techniques); they have been divided into tests of unique risk factors, tests of historic scenarios and tests of hypothetical scenarios;

- Stress tests associated with the structural interest rate risk enabling the potential impact on Dexia equity of a sudden and unexpected fluctuation of interest rates, to be measured, responding to regulatory expectations;
- Liquidity stress tests enabling additional liquidity requirements to be estimated in exceptional but plausible scenarios against a certain horizon. 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 specific stress tests (sensitivity analysis, scenario-by-scenario analysis) relying on macroeconomic scenarios simulating crisis situations (possible impacts of Brexit, stress of Italian banks). They have been estimated, approved internally and forwarded to the supervisory authorities. In association with the Pillar 2 requirements and the requirements of capital adequacy measures, these stress tests are performed in the same operational setting as that of the Pillar 2 process and align as requirement by the regulations with the ICAAP and ILAAP processes.

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

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

## Litigation

Like many financial institutions, Dexia is subject to a number of regulatory investigations and was named as a defendant in a number of lawsuits, including class action suits in the United States and Israel. 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. Such litigation is referred to below. Unless otherwise indicated, the status of such disputes and investigations is summarised below as at 31 December 2017 and based on information available to Dexia on that date.

On the basis of the information available to Dexia on that date, other disputes in which an entity of the Dexia Group is named as a defendant and regulatory investigations impacting 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.

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

statements. Subject to the general terms and conditions of professional indemnity and Directors' liability insurance policies taken out by Dexia, any negative financial consequences of some or all of these disputes and investigations may be covered, in full or in part, by those policies and, subject to the insurers in question accepting such risks, may be offset by any payments that Dexia may receive under the terms of those policies.

In addition, the Group has set aside provisions in respect of certain of these risks. Due to the nature of these proceedings, any indication as to whether provisions have been set aside in connection with them or their subject matter and, if so, the amount of any such provisions, could seriously prejudice Dexia's legal position or defence in connection with those legal actions or any related proceedings.

## Dexia Nederland BV

### General background

Difficulties linked to share leasing activities inherited from Banque Labouchere (now Dexia Nederland BV, hereinafter referred to as DNL) came to light when the Amsterdam stock market fell sharply in late 2001. The value of the securities used as collateral against the loans granted to its clients by the bank at that time proved insufficient for a large number of contracts, thus ending with a residual debt owed by the clients instead of the gain for which they had initially hoped. As a result, Dexia's Dutch subsidiary DNL is still involved in major litigation involving a number of legal proceedings brought by clients who had entered into share leasing agreements. Given developments in case law pertaining to certain aspects of these cases, DNL has tried for a number of years to propose out-of-court settlements to the clients (independently of the overall settlement offered in April 2005 within the framework of a national mediation process led by Wim Duisenberg, for which clients had the opportunity to sign up, and which was declared collectively binding in 2007, on the basis of the *Wet Collectieve Afhandeling Massaschade* (WCAM), except for those clients who explicitly opted-out).

Over the years, DNL closed the ongoing legal proceedings and litigation with the majority of clients. At the end of 2017, a certain number of customers (approximately 13,500) continued to object to the indemnity scheme resulting from case law of the Amsterdam Court of Appeal and the Supreme Court. They submitted different points of dispute to the Courts, including alleged failures in investment technique, the goal of the investments, the role of intermediaries, the date of commencement of the legal interests, the date of "knowledge" of the contract by a spouse and its impact on the limitation of the period of annulment in spousal cases, contractual early termination costs, unfair terms in consumer contracts and the interrupting effect of the actions of the Eegalease foundation.

Decisions by the Amsterdam Court of Appeal and their confirmation by the Supreme Court form the basis of DNL's attempts to reach out-of-court settlements.

In a series of cases relating to the bank's duty of care towards its clients when entering into the contract (see below), DNL applied for a declarative judgment and confirmation that DNL has fulfilled its obligations and the client no longer has a claim on DNL. In a number of cases that declaration was granted.



## Issues raised by litigation

### Duty of care

As stated in Dexia's previous annual reports, on 5 June 2009 the Dutch Supreme Court passed an important judgment concerning share leasing agreements. Numerous allegations were rejected, including allegations of error, misleading advertising and abuse of circumstances, as well as the applicability of the Dutch Consumer Credit Act. The Supreme Court did, however, rule that the lender ought to have performed due diligence at the time when the share leasing agreements were entered into. In this respect, the 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.

Against this background, and as stated in Dexia's previous annual reports, on 1 December 2009, the Amsterdam Court of Appeal passed four detailed judgments setting out exactly how the distinction drawn by the Dutch Supreme Court between the two categories of customers should be applied. Customers claiming to have been placed under an unduly heavy financial burden are required to demonstrate that this is the case. Furthermore, the Amsterdam Court of Appeal ruled that gains on earlier share leasing products should be taken into account when calculating the loss suffered, and that statutory interest to be reimbursed should be calculated with effect from the date on which the agreement in question was terminated. Shortly after the Amsterdam Court of Appeal passed its judgments, two former customers filed an appeal against two of those judgments.

On 29 April 2011, the Supreme Court also confirmed that, where a customer had made gains on a share leasing agreement, those gains should, subject to certain conditions being met, be offset against losses suffered on other such agreements.

On 2 September 2016, the Supreme Court gave its verdict on litigation relating to the role of intermediaries in the sale of share leasing products. This decision in principle could authorise plaintiffs to apply for a higher indemnity than provided for by current case law, if they had acquired these share leasing products via an intermediary and provided that certain obligations of due care had not been fulfilled by such intermediary. The financial impact for DNL will depend on the ability of plaintiffs to prove individually before the Courts that such obligations had not been fulfilled and DNL's awareness thereof. Moreover, some complaints formulated on the basis of principles established by the Dutch Supreme Court could, in certain cases, be time-barred. On 1 August 2017, the Amsterdam Court of Appeal took a positive landmark decision, in which it expressly stated that (i) deviations from the court model should remain limited (legal certainty being the key objective), and that (ii) as far as the split of damages between the client and DNL is concerned, which it considers to be a mainly factual discussion and not a legal one, the client cannot fully escape his own responsibility as, whether or not any intermediary was involved, he was / should have been aware of the basic characteristics of the relevant (and potentially risky) products, at least for cases in which the client (a) had not actively approached the intermediary (b) for purposes of obtaining personal advice (c) in relation to a very risky and complex financial product. At the end of 2017, the claimant lodged an appeal against this decision before the

Supreme Court. Other courts of appeal have not yet taken a final stance as to the interpretation and application of the September 2016 Supreme Court decision.

On 1 August 2017, the Arnhem-Leeuwarden Court of Appeal confirmed that any advice given by (an internal advisor of) DNL, if any, should not have an impact on the split of damages between DNL and the client. At the end of 2017, the claimant lodged an appeal against this decision before the Supreme Court.

Also in 2017, the Supreme Court gave a ruling on how (technically) to impute the impact of contracts ending with a positive result on contracts under which customers had suffered a loss. The Supreme Court also ruled that the early termination indemnification calculation method specified in some of DNL's contracts could, in certain circumstances, be unfair, and hence, that said contract clauses cannot be applied as such. However, the Court also explicitly confirmed that DNL has the legal right to ask for a (similar) type of compensation for its loss further to contract cancellation, based on generally applicable provisions of the Dutch civil code.

### Spousal consent cases

The question of spousal consent upon subscription to the disputed agreements has also been raised in connection with these proceedings. On 28 March 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, whereupon all payments made under the agreement must be refunded and any debt to DNL arising from the agreement must be cancelled. On 28 January 2011, the Supreme Court ruled that the spouse or partner must cancel the agreement within three years of becoming aware of its existence. However, the question of the nature of the evidence required to demonstrate the spouse's knowledge of the agreement remained unresolved. On 27 February 2012, the Supreme Court ruled that knowledge of the agreement may be presumed where payments under that agreement have been made from a joint account held by both spouses or partners. However, the Supreme Court also ruled that spouses or partners are still entitled to (try to) demonstrate to the court that they were not aware of the existence of such an agreement.

On the subject of time-barring, the Dutch Supreme Court, answering a preliminary question, decided on 9 October 2015 that the filing of a class action suit results in a suspension of the limitation period for individual applications for annulment connected to that collective action. The Supreme Court also decided that, for purposes of interrupting the said limitation period, the lodging of an extra-judicial application for annulment suffices, if lodged in a timely manner; the initiation of legal proceedings is not required. On 19 May 2017, the Supreme Court confirmed that the 3-year period during which a spouse could have validly cancelled a share leasing contract (as from the signature or knowledge of such contract) had ended on 25 July 2007 (i.e. 6 months after the end of the WCAM procedure).

Also in 2017, the Supreme Court confirmed that spouses who had cancelled the share lease agreement but did not opt out of the WCAM procedure are no longer entitled to any indemnification by DNL. The Supreme Court thereby confirmed the interpretation of the WCAM procedure as given in previous judgments.

### Number of law suits in progress

As at 31 December 2017, DNL was still involved in some 1,250 civil court cases (against 1,800 at the end of 2016). In spite of the aforementioned developments, at present Dexia is unable reasonably to predict the duration or outcome of the remaining legal proceedings in progress, or their potential financial repercussions.

### Klachteninstituut Financiële Dienstverlening (KiFiD)

At the end of 2017, 13 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.

## Financial Security Assurance

During 2016, Dexia substantially resolved most of the civil actions brought against Financial Security Holdings Ltd (now Assured Guaranty Municipal Holdings Inc.) and its subsidiary Financial Security Assurance Inc. (now Assured Guaranty Municipal Corp.), both former subsidiaries of Dexia Group, in connection with bidding on and entering into municipal derivatives transactions, including guaranteed investment contracts (GICs<sup>(1)</sup>), with municipal bond issuers. Settlement agreements were executed with the relevant plaintiffs while the proceedings brought by U.S. authorities (SEC and DOJ) have ended. The main class action, which was not directly targeting FSA or another entity related to Dexia, was also settled during 2016. The one remaining civil action brought against FSA Holdings, or Dexia entities, was resolved in 2017.

## 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 regions, cities and provinces, as well as (ii) other non-hedging type transactions.

### Litigation in relation to the hedging transactions

On 11 January 2017, the Civil Court of Messina declared that it had no jurisdiction regarding the claim filed by the City of Messina, thereby referring to the decision of the Italian Supreme Court of 23 October 2014, in which the Supreme Court declined the jurisdiction of the Italian courts in favour of the English courts, as had also already been decided by the Administrative Court in Sicily on 10 July 2015. Accordingly, the claim brought by Messina was dismissed. As payment defaults by the City of Messina persisted, Dexia Crediop resolved to file a claim in London.

*(1) The guaranteed investment contracts (GICs) that are the subject of these investigations and lawsuits were issued by subsidiaries of FSA Holdings in exchange for funds invested by US municipalities, or in favour of issuers of securitised debt. GICs, the terms and repayment conditions of which vary, entitle their holders to receive interest at a guaranteed fixed or floating rate, as well as to receive their principal at maturity. The payment of principal and interest on the GICs was guaranteed by AGM and remains so subsequent to that company's acquisition by Assured Guaranty Ltd.*

On 15 June 2017, the Court of Appeal in London issued a judgment in the Prato case by means of which the Court of Appeal overturned the High Court judgments and dismissed Prato's counterclaim in the civil proceedings by stating that: (i) derivative contracts entered into between Dexia Crediop and Prato in the period 2002-2006 were valid and binding; (ii) Prato had full capacity to enter into the derivative contracts; (iii) 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. The City of Prato was ordered, inter alia, to reimburse Dexia Crediop's legal costs and to pay default interest on the unpaid nettings. The Court of Appeal also dismissed Prato's application for permission to appeal such judgment before the Supreme Court. Prato filed a specific request to file an appeal directly with the Supreme Court. On 18 December 2017, the Supreme Court confirmed the lower court's decision. A criminal proceeding before the Criminal Court of Prato is also ongoing in this matter. While the tribunal issued an acquittal on 31 May 2017, the public prosecutor decided to appeal such decision on 16 October 2017.

Dexia Crediop also entered into settlement agreements with other parties in the course of 2017; these settlements confirm the legality, validity and binding effect of the derivative contracts that had been entered into.

### Other litigation involving Dexia Crediop

On 5 April 2016, Dexia Crediop was summoned before the Civil Court in Rome by PICFIC (Provincia Italiana della Congregazione dei Figli dell'Immacolata Concezione), currently in extraordinary administration. That summon aims at obtaining a declaration confirming that the assignments of receivables entered into with Dexia Crediop in 2012 are null and void (claw-back action). The lawsuit is ongoing.

The lawsuit brought by Dexia Crediop in 2013 to obtain payment of part of the assigned receivables that remain unpaid is also still pending.

Dexia Crediop is also involved in a 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 extraordinary administrators of ICS challenged the nature of the subsidies granted to ICS, which were reclassified as equity. The quota holdings in ICS and the dividend distributions since 2005 were challenged as a result of the self-redress decisions to annul ICS's by-laws and the dividend distributions. In September 2015, the Council of State rejected the appeal of Dexia Crediop and the other ICS' quota holders by confirming the judgment of the Administrative Court of Lazio and the annulment of the 2005 ICS's by-laws, stating inter alia that the decisions on dividend distributions are subject to the jurisdiction of the civil courts. Dexia Crediop decided not to appeal the decision. The civil court proceedings relating to the dividends distributions and the new ICS' by-laws are ongoing.

On 18 July 2016, Dexia Crediop was summoned before the Civil Court in Rome by LIRI (Livorno Reti e Impianti S.p.A.), currently in voluntary winding-up, in relation to a loan agreement entered into in 2003 with Dexia Crediop and another bank (50% each). LIRI is challenging the loan by alleging, inter alia, that the loan embeds a derivative agreement including hidden costs. The lawsuit is ongoing.

At present, Dexia Crediop is unable reasonably to predict the duration and outcome of these proceedings, and their potential financial repercussions.

## Structured loans litigation

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 2017, 37 clients had issued summonses against DCL in connection with structured loans (compared to 51 clients at the end of 2016), of which 23 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. It must be noted that DCL did not give any representation or warranties on the loans of CAFFIL at the time of the sale of SFIL in January 2013. Nevertheless, DCL, as legal representative of CAFFIL until the time of the sale, remains responsible for any damages granted to a borrower solely in case of non-fulfilment of its regulatory obligations relating to the marketing by DCL of the structured loans held by CAFFIL at the time of the sale.

For the ongoing litigation, four important rulings were passed by the Court of Appeal in Versailles on 21 September 2016. In these decisions, the Court dismissed the four borrowers' claims and recognized the validity of the contracts, the validity of the borrower's obligations and DCL's compliance with its duty of information. As these decisions were pronounced by a special chamber of the Court of Appeal, they are considered as "in principle decisions" which could not be easily contested. All borrowers appealed this decision before the *Cour de Cassation*.

Dexia Kommunalbank Deutschland (DKD), a subsidiary of DCL, was also summonsed in a small number of disputes relating to structured loans. In two of these cases, the German courts decided in 2017 that DKD had not sufficiently fulfilled its duty of financial advice and considered the interest formula applied by DKD to be invalid. In one of these cases, a decision as to the amount of damages still has to be taken. In spite of the aforementioned developments, at present DCL and DKD are unable reasonably to predict the duration or outcome of the remaining investigations and legal proceedings in progress, or their potential financial repercussions.

## Dexia Israel

In December 2011, individual shareholders had filed a class action lawsuit against Dexia Crédit Local (DCL), Dexia Israel (DIL) and the Union of Local Authorities in Israel (ULAI). This action was based, inter alia, on an alleged failure to complete the process of equalising the rights attached to shares in DIL. On 7 October 2014, a new derivative action was brought by certain shareholders (including one of the instigators of the class action of December 2011) against DCL, DIL's CEO and 13 of DIL's current and former directors. The claim related to an alleged boycott of local authorities by DIL in the production of loans in the provinces of Judea and Samaria.

On 15 January 2016, a settlement was agreed by the parties in those two cases, allowing for a waiver of their claims by the plaintiffs. In June 2016 and January 2017, the Tel Aviv Court approved the terms of the settlement and the consideration due to the plaintiffs and their counsels. The approval

allowed Dexia Israel to initiate and to finalize an equalization process for its categories of shares and to pay the agreed dividend to all shareholders. The equalization process was approved by the shareholders' meeting of Dexia Israel and finalized on 26 April 2017.

## Alleged shortcomings in respect of 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 contests 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 legal proceeding in progress, or its potential financial repercussions. Dexia has also been informed that an investigation is ongoing in Brussels in relation to alleged market abuse. At present Dexia is unable reasonably to predict the duration or outcome of this investigation, or its potential financial repercussions.

## Claims arising from the disposal of Group's operating entities

Over recent years, Dexia has implemented its programme of divestment of entities, as laid down in the revised orderly resolution plan.

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 that 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 claims for indemnification were made in relation to past disposals of entities by Dexia, including in connection with the sale of Banque Internationale à Luxembourg and DenizBank. However Dexia contests most of these claims.

At present Dexia is unable reasonably to predict the duration or outcome of these claims 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, ensure continued access to liquidity for the duration of its resolution process and manage its operational risks.

## Share capital

### Information on Dexia's share capital as at 31 December 2017

As at 31 December 2017 Dexia share capital amounted to EUR 500,000,000.

Since the shareholders' meeting<sup>(1)</sup> 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 2017 they consist of 224,942 registered shares and 1,724,042 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

On 7 December 2017, an extraordinary shareholders' meeting 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](http://www.dexia.com).

The conversion plan 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 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<sup>(2)</sup>.

The plan was approved by the European Commission on 19 September 2017<sup>(3)</sup>. 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.

### 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 2017, 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.

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

The extraordinary shareholders' meeting on 8 May 2013 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;

(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](http://www.dexia.com).

## Summary of Dexia warrants as at 31 December 2017

	Exercise price (in EUR)	Exercise period		Number of warrants awarded <sup>(2)</sup>	Number of warrants	Number of warrants cancelled as void	Number of residual warrants before transfer
		from	to				
Warrants granted in 2008							
Warrants "ESOP 2008"	9.12	30 June 2011	29 June 2018 <sup>(1)</sup>	7,093,355	0	110,906	7,553,684
Warrants "ESOP 2008"	11.44	30 June 2012	29 June 2018	3,466,450	0	224,660	3,531,624

(1) Except under specific conditions.

(2) Following the reverse stock split, the general conditions accompanying the issue of warrants were amended by notarised deed in order to place the beneficiaries of warrants in a situation substantially equivalent to that in which they would have been if the aforementioned operation had not occurred. The number of warrants necessary to subscribe to 1 (one) new share is henceforth one thousand (1,000). The exercise price per warrant remains unchanged.

- 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 2017.

The unchanged balance of the portfolio of own shares as at 31 December 2017 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.

## Regulatory capital 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 2017 was marked by the 80% deduction of the AFS reserve, compared to 60% in 2016, in accordance with the calendar defined by the CRD IV Directive.

### Prudential requirements applicable to Dexia with regard to solvency

The European Central Bank has informed Dexia of the qualitative and quantitative regulatory capital requirements which are applicable to Dexia and certain of its subsidiaries as from 1 January 2018, in accordance with Regulation (EU) No 1024/2013 of the Council dated 15 October 2013.

In this regard, the level of total SREP capital requirement applicable to Dexia SA in 2018 has been set at 10.25% on a consolidated basis. This level includes a minimum own funds requirement of 8% (Pillar 1) and an additional own funds requirement of 2.25% (P2R – Pillar 2 Requirement). By including the capital conservation buffer, of 1.875% in 2018, this brings the capital requirement to 12.125%.

These levels are also applicable to Dexia Crédit Local, on a consolidated basis, as well as Dexia Kommunalbank Deutschland and Dexia Crediop.

### Regulatory capital

Total capital can be broken down as follows:

- Common Equity Tier 1 capital, including in particular:
  - share capital, premiums, retained capital,
  - profits for the year,

- gains and losses directly recognised in equity (revaluation of financial assets available for sale or reclassified, revaluation of cash flow hedge derivatives and translation adjustments),
- the eligible amount of non-controlling interests,
- after deduction 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 and elements subject to prudential filters (own credit risk, Debit Valuation Adjustment, cash flow hedge reserve, Additional Valuation Adjustment).

- 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:

- Gains and losses directly recognised in equity as revaluation of sovereign and non-sovereign bonds and shares classified as "available for sale" (AFS) are progressively taken into consideration over a period of five years from 1 January 2014 at 20% per annum cumulatively, i.e. 80% in 2017;
- Non-controlling interests are partially eligible for Tier 1 capital; their limited inclusion is the object of transitional provisions;
- Certain adjustments on subordinated and hybrid debt must be taken into consideration in the calculation of capital in order to reflect the loss-absorption characteristics of these instruments.

As at 31 December 2017, Dexia's Total Capital was EUR 6.8 billion, against EUR 7.3 billion as at 31 December 2016. This fall is principally explained by the negative net result for the financial year.

Gains and losses recognised directly in equity stood at EUR -4.3 billion as at 31 December 2017, a strong improvement of EUR +1.4 billion over the year, principally as a result of the tightening of credit spreads on sovereign bonds, in particular from Italy and Portugal, and the appreciation of the euro. The amount deducted from regulatory capital for the AFS reserve was EUR -2.8 billion as at 31 December 2017, whilst the amount was EUR -2.7 billion as at 31 December 2016, despite the phased deduction (80% in 2017 against 60% in 2016, in accordance with the schedule defined by the CRD IV Directive).

Dexia's Common Equity Tier 1 capital followed a similar trend and was at EUR 6.5 billion as at 31 December 2017, against EUR 7.0 billion as at 31 December 2016.

**REGULATORY CAPITAL**

(in EUR million)	31/12/2016	31/12/2017
<b>Total Capital</b>	<b>7,305</b>	<b>6,811</b>
<b>Common Equity Tier 1 Capital</b>	<b>7,011</b>	<b>6,496</b>
Core shareholders' equity	9,817	9,214
Eligible gains or losses directly recognised in equity <sup>(1)</sup>	(2,791)	(2,792)
Cumulative translation adjustments (group share)	157	45
Actuarial differences on defined benefit plans	(3)	(1)
Non-controlling interests eligible in Tier 1	259	197
Items to be deducted:		
<i>Intangible assets and goodwill</i>	(32)	(35)
<i>Ownership of Common Equity Tier 1 instruments in financial institutions (&gt;10%)</i>	(2)	0
<i>Own credit risk</i>	(148)	0
<i>DVA</i>	(80)	(48)
<i>AVA</i>	(166)	(84)
<b>Additional Tier 1 Capital</b>	<b>50</b>	<b>48</b>
Subordinated debt	58	48
Items to be deducted:		
<i>Ownership of Tier 1 instruments in financial institutions (&gt;10%)</i>	(8)	0
<b>Tier 2 Capital</b>	<b>244</b>	<b>267</b>
Subordinated debt	54	52
<i>of which additional Tier 1 reclassified</i>	38	48
IRB provision excess (+); IRB provision shortfall 50% (-)	247	215
Items to be deducted:		
<i>Ownership of Tier 2 instruments in financial institutions (&gt;10%)</i>	(58)	0

(1) 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.

As at 31 December 2017, the Group's Tier 1 hybrid capital securities represented a nominal total of EUR 96 million, including EUR 48 million eligible as additional Tier 1.

No hybrid debt buyback operations were carried out in 2017. 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.

Total outstanding Tier 2 subordinated debt amounted to EUR 196 million as at 31 December 2017 and included EUR 4 million of eligible subordinated debt. Taking account of the additional Tier 1 reclassified, the eligible IRB provision excess, Tier 2 Capital amounted to EUR 267 million.

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. Dexia cannot exercise any discretionary options for the early redemption of these securities.

In addition, as announced by Dexia on 24 January 2014, the European Commission refused to authorise the Group's proposal to repurchase the hybrid capital debt issued by Dexia Funding Luxembourg (XS0273230572), noting that the subordinated creditors must share in the financial burden resulting from the restructuring of financial institutions

that have been granted State aid. The European Commission has also informed Dexia that it is authorised to communicate this information to the holders of this instrument and to the holders of financial instruments with identical characteristics. Financial instrument FR0010251421 issued by Dexia Crédit Local has similar characteristics.

The European Commission requested that Dexia communicates that this decision relates to its own situation and does not mean that similar decisions will be taken in respect of such financial instruments issued by other European banks subject to orderly resolution plans under the supervision of the Commission.

**Risk-weighted assets**

At the end of 2017, risk-weighted assets stood at EUR 33.4 billion, of which EUR 31.4 billion for credit risk, EUR 980 million for market risk and EUR 1 billion for operational risk. To recall, at the end of 2016 they were at EUR 43.4 billion, of which EUR 41.0 billion for credit risk. The sharp EUR 9.6 billion fall of credit risk-weighted assets was for the most part a result of the reduction of the asset portfolio, of a favourable exchange rate and of a reduction of the fair value of exposures.

**RISK-WEIGHTED ASSETS**

(in EUR million)	31/12/2016	31/12/2017
Credit risk-weighted assets	40,988	31,371
Market risk-weighted assets	1,367	980
Operational risk-weighted risks	1,000	1,000
<b>TOTAL</b>	<b>43,356</b>	<b>33,351</b>

## Solvency ratios

Dexia's Common Equity Tier 1 ratio was 19.5% as at 31 December 2017, against 16.2% at the end of 2016. The Total Capital ratio was 20.4%, against 16.8% at the end of 2016, a level higher than the threshold of 9.875% (including the capital conservation buffer of 1.250%) imposed for the year 2017 by the European Central Bank within the framework of the Supervisory Review and Evaluation Process (SREP).

### SOLVENCY RATIOS

	31/12/2016	31/12/2017
Common Equity Tier 1 ratio	16.2%	19.5%
Total Capital ratio	16.8%	20.4%

## Internal capital adequacy

In 2012 Dexia began an overhaul of its internal adequacy assessment process, taking account of its specific situation as a bank in orderly resolution and in line with the requirements of the CRR and the CRD IV.

Dexia in fact developed a "Risk and Capital Adequacy" approach which was inspected by the supervisory authorities. Within the framework of the Single Supervisory Mechanism (SSM), this approach is the Group's response to the requirements of the European Central Bank (ECB) in relation to the Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Adequacy Assessment Process (ILAAP) and the Supervisory Review and Evaluation Process (SREP).

This approach consists of establishing an exhaustive map of the qualitative and quantitative risks 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 exposure to different 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 scenarios of macroeconomic stress and scenarios which are simulated mathematically. Capital adequacy is thus analysed over horizons of from 3 to 5 years.

In accordance with the requirements of Pillar 2 and in line with best market practices, the conclusions from these processes are regularly submitted for the approval of the bank's decision-taking bodies (Management Board and Board of Directors).

In 2016, the complete formalisation of the approach on the basis of figures as at 31 December 2015 was submitted to the Risk Committee and to the Group's decision-taking bodies, which approved their principles and their conclusions. These are precisely the ICAAP and ILAAP reports as required by the regulations. Within the framework of the SSM, this

approach was also the object of an in-situ inspection by the Joint Supervisory Team (JST), the definitive conclusions of which were sent to the Group's decision-taking bodies in September 2016.

This internal approach has been renewed for 2017, taking account of the evolution of risks, Dexia's situation and the recommendations of the JST made in 2016.

## Liquidity management

In 2017, market conditions were marked by a gradual rise of interest rates, combined with a certain volatility on the markets, in particular associated with the electoral calendar in France.

Against that background, Dexia continued its policy of prudent liquidity management whilst benefiting from a reduction of its funding requirement by the increase of interest rates and the strengthening of the euro. At the end of December 2017, total funding raised by the Group was EUR 124.8 billion, against EUR 146.5 billion at the end of December 2016, a consequence of the EUR -6.2 billion fall of the net amount of cash collateral paid by Dexia to its derivatives counterparties (EUR 26.5 billion as at 31 December 2017) and the reduction of the asset portfolio.

The Dexia Group profited from favourable market conditions, marked by abundant liquidity, to optimise its funding mix whilst preferring recourse to less costly funding sources.

Over the year, Dexia Crédit Local successfully launched various long-term public transactions in euros, in US dollars and pounds sterling, raising EUR 9.9 billion, and executed almost EUR 4 billion additionally in private placements. Short-term funding activity in the guaranteed format was also sustained, with a relatively long average maturity of 8.4 months.

Overall outstanding of guaranteed debt was down slightly, to EUR 67.6 billion as at 31 December 2017, against EUR 71.4 billion at the end of December 2016.

Short and long-term secured market funding remained considerable. The reduction of outstanding, falling from EUR 58.4 billion at the end of 2016 to EUR 48.9 billion as at 31 December 2017, is proportionate to the reduction of the funding requirement and the stock of assets eligible for this type of funding.

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. At the end of December 2017, the Dexia Group had a liquidity reserve of EUR 16.4 billion, of which EUR 10.5 billion in the form of deposits with central banks. To recall, at the end of 2016, the Dexia Group had a liquidity reserve of EUR 18.2 billion, of which EUR 3.4 billion in the form of deposits with central banks.

# 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 relating to 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 finance 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 more 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 SCR commitments by systematically adding clauses in contracts concluded or by signing the Charter of Professional Ethics.

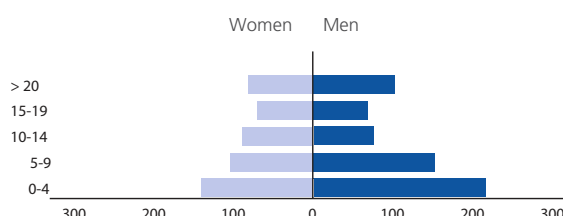
As for clients and projects financed, on the other hand, it is not possible to adopt a policy aimed at only funding projects which take account of CSR issues, for instance ecologically friendly projects, since Dexia no longer has new clients. For existing projects, the Dexia Group is obliged to meet 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

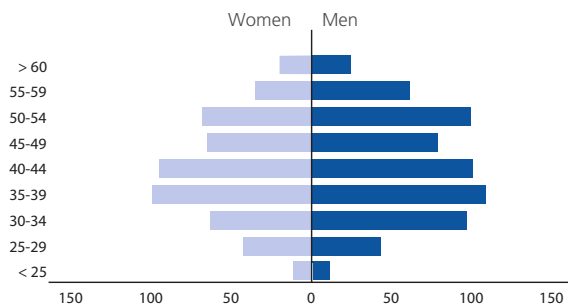
At the end of 2017, the Dexia Group had 994 staff members, of 36 different nationalities, in 13 countries. 65 people are based in Belgium and constitute a team of staff members and executives who participate in the continuity of activity of all lines combined. In France, the total workforce of Dexia Crédit Local was 544 as at 31 December 2017, against 639 at the end of 2016. More than 50% of the staff members have joined the Group in the last ten years and the Group gained 7% new staff members in 2017.

#### SENIORITY PYRAMID AS AT 31 DECEMBER 2017



At the end of 2017, the average length of service of Group staff members was 11.7 years. The average age was 43.9 years.

### AGE PYRAMID AS AT 31 DECEMBER 2017



The overall split of the workforce between men and women was 54.6% and 45.4% respectively. 93% of the workforce is on indefinite-term contracts and 7% of Group staff members work part time.

#### BREAKDOWN OF EMPLOYEES BY ESTABLISHMENT

	2016	2017
Dexia	69	65
Dexia Crédit Local France (excluding seconded / expatriated employees)	639	544
Dexia Crediop	114	102
Dexia Kommunalbank Deutschland	81	77
Dexia Crédit Local, New York branch	119	111
Other establishments	112	95
<b>TOTAL</b>	<b>1,134</b>	<b>994</b>

#### BREAKDOWN OF EMPLOYEES BY GEOGRAPHIC AREA

	2016	2017
France	639	544
Belgium	69	65
Italy	114	102
Germany	81	77
Spain and Portugal	34	21
North America	119	111
Other countries	78	74
<b>TOTAL</b>	<b>1,134</b>	<b>994</b>

The orderly resolution plan implemented for more than five 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. 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. Furthermore, Dexia encounters the risks inherent to any type of activity, such as psycho-social risks, those of inequality of treatment and, on a very limited basis, accidents at work. Multiple actions have been taken with a view to tackling these various risks, actions which are subject to systematic reassessment in order to ensure their appropriateness to their specific situations. 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.

The year 2017 was marked in particular by the continuing deployment of the HR offer and change management launched three years earlier. 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.

In accordance with its social obligations, management presented some major strategic corporate orientations to the social partners during the first quarter 2017. It also relies on the results of the comprehensive survey performed by the Group at the end of 2016 to determine and to prioritise its actions.

### 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 whilst contributing to the organisation and improving 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 2017, 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 2017, 80 collective training sessions were held by recognised training bodies and organised in Paris and Brussels. These training actions represent 59 different training 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: change management within the framework of the Horizon project, improved training in foreign languages (French, Dutch, English and Spanish) within the context of repatriation of certain activities and with the aim of developing the



employability of staff members, and training actions to assist in dealing with regulatory developments, particularly MiFID or implementation of the new accounting standard IFRS 9.

In addition to these collective training sessions, other training or information actions were dispensed internally by colleagues, consultants or service providers. These 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 2017 (all training combined: training, conferences, seminars) amounted to more than 11,300 hours for Dexia Crédit Local and Dexia.

## 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 four 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) is 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 2017 Dexia reviewed its partnerships with recruitment sites or actors, and increased its participation in recruitment fairs.

### STAFF MOVEMENTS OVER THE ENTIRE GROUP

	2016	2017
Permanent contract hiring	68	57
Individual redundancies affecting employees on a permanent contract	11	19
Economic redundancies affecting employees on a permanent contract	11	33
Resignations tendered by employees on a permanent contract	83	67
Shifts from fixed-term to permanent contract	4	6
Fixed-term hiring (including work-study contracts)	49	41
Fixed-term redundancies	0	2
Fixed-term resignations	3	3
End of fixed-term contract (including work-study contracts)	30	39
Permanent contract transferred to Cognizant	0	52
Other	18	23

*The 23 other departures correspond to mutations within the Group, retirements, contractual terminations, ends of trial periods, departures and arrivals associated with 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 of 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 its 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, some 150 Dexia staff members responsible for those activities join a dedicated company, newly created in France by Cognizant and thus benefit from renewed career prospects in an expanding group. To allow for a smooth transition, implementation of the agreement is organised in two phases. IT services were transferred on 1 November 2017 and back offices will join Cognizant in May 2018.

The social dimension of the agreement was a central point in the negotiations between the two groups. The procedure for information and consultation with social partners was launched in France and Belgium in June and closed in mid-September, with opinions then being expressed by the social partners.

Furthermore, an agreement was signed in December 2017 with the company Primexis, with a view to outsourcing loan lease management activities. This operation, planned for 2018, will result in the loss or transfer of 6 jobs.

### Prevention of social, health and safety risks

Eager to follow the policy to prevent psychosocial risks adopted several years ago, in 2017 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 Dexia Group seeks to introduce working conditions which guarantee safety and protect the physical and mental health of each of its staff members.

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 Directive CRD IV 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, that amount able however 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 or remuneration appears irrelevant at a Group level as the attribution and calculation rules are different between entities. The figures relating to remuneration are therefore not communicated.

## Dialogue within the company

### Social dialogue

The European Works Council (*Comité d'entreprise européen – CoEE*) of Dexia has four permanent full members from three entities and three different countries. This social body is competent to enter discussions with management on any major question of a cross-border nature.

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 the 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).

### Commitment survey and participating workshops

A commitment survey was undertaken at the end of 2016 among all Group staff members. That consultation related to a large number of topics, such as working conditions, relations with management or the perception of the Group, in order to gain a better understanding of the situation, operational reality, motivation, concerns and expectations of staff members, within the context of a company managed in orderly resolution and constantly changing. With the aid of an external institution, guaranteeing the anonymity of the answers, questions were prepared by a working group representing Group employees in terms of seniority, activity line, age and hierarchic level.

The survey closed with a high participation rate of 77%. In June 2017, the results and information obtained from this study were subject to six detailed presentations to staff members of the entire Group in Paris and in Brussels and one tele-conference for staff members in international entities.

In order to draw the information from these results, seven one-day participating workshops, designed by the working group, were held in June in Dexia Crédit Local Paris and Dexia. These workshops relied on an assessment method to identify the motivation factors in Dexia and to detect the lines for improvement of working conditions within the Group. In all some 100 people attended.

The working group issued proposals, which were presented to the Management Board in mid-October 2017. These will flesh out the considerations given to defining the Group's operating model.

## 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.

By way of example, on 15 June 2015 and for a term of three years, Dexia Crédit Local concluded an agreement in relation to professional gender equality. In this regard, a specific envelope of EUR 50,000 was allocated 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.*

### 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 36 nationalities and can rely on the expertise of senior profiles: staff members of more than 55 years old represent 15% of the workforce.

## BREAKDOWN OF EMPLOYEES BY GENDER

	2016			2017		
	Women	Men	Total	Women	Men	Total
Management Board	2	4	6	2	4	6
Executives	343	440	783	306	384	690
Employees	169	176	345	143	155	298
<b>OVERALL TOTAL</b>	<b>514</b>	<b>620</b>	<b>1 134</b>	<b>451</b>	<b>543</b>	<b>994</b>

## BREAKDOWN OF EMPLOYEES BY AGE AND SOCIO-PROFESSIONAL CATEGORY

	< 25 years	25 - 29 years	30 - 34 years	35 - 39 years	40 - 44 years	45 - 49 years	50 - 54 years	55 - 59 years	60 years +	Overall total
Management Board	0	0	0	0	0	2	2	1	1	6
Executives	3	49	110	99	134	98	93	77	27	690
Employees	9	7	32	55	58	43	49	27	18	298
<b>OVERALL TOTAL</b>	<b>12</b>	<b>56</b>	<b>142</b>	<b>154</b>	<b>192</b>	<b>143</b>	<b>144</b>	<b>105</b>	<b>46</b>	<b>994</b>

## 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 with regard to Compliance in these areas.
- 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 2017, 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. 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 MiFID 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, and has established policies and procedures enabling them to provide a service in relation to their classification and their investment objectives.

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 with the aim of reducing the risks of financial loss, penalty or loss of image or reputation resulting from the non-fulfilment of legal and regulatory obligations.

This system offers Dexia staff members the opportunity to report any failure, abuse or dysfunction likely to cause Dexia any serious harm.

## Protection of professional data and secrecy

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.

## 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 bank 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 2017, 14.5 tonnes of office paper was used.

In the United States, the branch sorts its waste both within its offices and at basement level to enable its suppliers 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 and 50% for those working outside the capital region.

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. Other concrete steps have been taken, such as the creation of a cycle parking area at head office and involvement in the European Mobility Week.

### 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 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 478 MWh, or greenhouse gas emissions of 121 tCO<sub>2</sub>e in 2017, compared to 629 MWh, or greenhouse gas emissions of 159 tCO<sub>2</sub>e in 2016.

## Information relating to social commitments in favour of sustainable development

### Dialogue with stakeholders

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

### Partnership and sponsorship actions

Dexia's commitment to society has been reflected in 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.

### "Caps of hope", a collection in favour of people with disabilities

In 2012, Dexia Crédit Local decided to organise a solidarity-driven collection of bottle caps in the CBX Tower at La Défense. This collection is intended for associations that finance equipment for sports adapted to disabled persons, such as for instance "Les Clayes Handisport", an association that strives to bring these people closer to clubs for able-bodied sportsmen so as to encourage their integration.

The items collected are bottle caps in hard plastic (polyethylene (PE) or polypropylene (PP)) that come from foodstuffs or household products. Over the year 2017, 90 kilograms of caps were collected. The campaign is being continued in 2018.

### 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 and to support them in their professional careers through mentoring by confirmed professionals.

Initiated in 2015, this commitment continued in 2016 and 2017. It is founded on a voluntary and personal involvement.

### 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.

# 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](http://www.corporategovernancecommittee.be). The 2009 Code contains nine mandatory principles for listed companies, declined in different lines of conduct. Dexia respects these nine principles.

### 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](http://www.dexia.com) and is regularly updated.

### Relations with shareholders

#### Shareholder base

Dexia's main shareholders as at 31 December 2017 were as follows:

Shareholder name	Percentage of existing Dexia shares held (31 December 2017) <sup>(1)</sup>
Belgian federal government through the Federal Holding and Investment Company	52.78%
French State	46.81%
Institutional, individual & employee shareholders	0.41%

<sup>(1)</sup> At the extraordinary shareholders' meeting on 7 December 2017, it was decided to proceed with the weighted conversion of all the shares in class B issued on 31 December 2012 and held by the States so as to take account of the requirements of the European Central Bank and the European Commission (Cf. chapter entitled "Information on capital and liquidity for more detailed information).

At 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.

As at 31 December 2017, 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 17 May 2017 and directly followed by an extraordinary shareholders' meeting, the minutes of which are available on the website. A non-conclusive extraordinary shareholders' meeting, with lack of quorum (*assemblée de carence*), was held on 17 November 2017. It was followed by an extraordinary shareholders' meeting on 7 December 2017, meeting the conditions of quorum to be able to decide on the conversion of preference shares.

### Relations with institutional investors

Relations with institutional investors are handled by a dedicated team ([investor-relations@dexia.com](mailto:investor-relations@dexia.com)), which also 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](http://www.dexia.com) under the "Shareholder/Investor" section.

#### The website ([www.dexia.com](http://www.dexia.com))

The website 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” stipulates notably 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 31 May 2017) 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. 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.

As at 31 December 2017, the Board of Directors is composed as follows:

#### ROBERT DE METZ

*Independent director*

3 January 1952 • French • Director since 2009

Holds no Dexia shares

Chairman of the Board of Directors of Dexia

Chairman of the Board of Directors of Dexia Crédit Local

#### Term of mandate: 2014-2018

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

**Other mandates and functions:** Chairman of the Supervisory Board: Média-Participations SCA. • Director: Média Participations SA • Chief Executive Officer: Bee2Bees SA (Brussels) • Director: La Martinière Groupe SA • Member of the Executive Committee: Fondation pour les Monuments Historiques.

**Biography:** Mr Robert de Metz is graduate of the Institut d’études politiques de Paris (IEP) and Ecole nationale d’administration (ENA). He began his career in the General Finance Inspectorate. He joined Banque Indosuez in 1983, occupying positions in Hong Kong and France before joining Demachy Worms & Cie. Active with Paribas from 1991, he performed numerous tasks, particularly mergers-acquisitions, before his appointment as a member of the Management Board, responsible from London for interest rate, exchange and derivatives markets. He was a director at Cobepa from 1993 to 1999. Between 2002 and 2007, he was Deputy Managing Director of the Vivendi Group in charge of mergers-acquisitions and strategy. From 2010 to 2014 he was an executive director of Lafayette Management UK. From 2014 to 2017 he was Member and Chairman of the Board of Directors of the Solocal Group.

**Principal fields of expertise:** finance, market operations and mergers and acquisitions



**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 Director General of Dexia Crédit Local

Chairman of the Board of Directors of Dexia Crediop

**Term of mandate: 2016-2020**

**Biography:** Mr 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) as well as in Private Equity dealing with company portfolio management. 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. 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, financial risk management, direction and management of institutions.

**CORSO BAVAGNOLI (resigned on 19 March 2018)**

21 July 1973 • French • Non-executive director since 2015

Holds no Dexia shares

Director of Dexia Crédit Local

**Term of mandate: 2016-2020**

**Primary function:** Head of Department for Economy Financing

**Biography:** Mr Corso Bavagnoli is a graduate of the Ecole nationale supérieure des Mines in Paris, the Institut d'études politiques (IEP) in Paris and a former student of the Ecole nationale d'administration (ENA). In 2001 he was appointed Deputy Finance Inspector and then in 2002 he was promoted to Finance Inspector. He served as Deputy Head of Unit at the Directorate General of the Treasury and Economic Policy Office from 2005, then Head of the "International financial system & summit preparation" unit. From 2008, he served as Head of the "EDF and other participations" unit" at the French Government Shareholding Agency. He has served as Adviser on Economic and Financial Affairs in the Office of the Prime Minister François Fillon from 2009. In 2012 he became Deputy Head for "Banks and public interest financing" at the Directorate General of the Treasury. In May 2015 he became Head of Department for Economy Financing.

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

**JOHAN BOHETS**

13 September 1971 • Belgian • Executive director since 2016

Holds no Dexia shares

Chief Risk Officer and member of the Management Board of Dexia

Director and Executive Vice-President of Dexia Crédit Local

Member of the Board of Directors of Dexia Crediop

**Term of mandate: 2016-2020**

**Other mandates and functions:** Non-executive director of Pinnacle Investments NV • Manager of MOIRAI Management SPRL • independent director of Keyware Technologies SA

**Biography:** Mr Johan Bohets holds a Master's degree in law from the Catholic University of Louvain (KU Leuven), a post-university diploma in Finance from the Catholic University of Louvain and Master's degree in Finance from Solvay. After practice as a lawyer, in 2005 he joined the European Investment Fund. In 2006, he joined the Dexia Group as Head of Legal M&A department. Deputy Secretary General of the Dexia Group in 2009, he became Secretary General of the Dexia Group and a member of the Executive Committee of Dexia from 2012 to 2015. In 2016, he was appointed Chief Risk Officer and a member of the Management Board of Dexia.

**Principal fields of expertise:** risk management, finance, law, mergers and acquisitions

**BART BRONSELAER**

*Independent director*

6 October 1967 • Belgian • 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:** Director of Dexia Crédit Local, Alpha 11 Inc., Alpha 11 Europe, Right Brain Interface • Independent Director of United Pensions OFP • Director of the private foundations: Gh. Piot and Le Bois Clair • Member of the Board of the non-profit-making associations: Katholiek Onderwijs Kessel-Lo and Abbaye d'Oignies

**Biography:** Mr Bart Bronselaer holds a degree in industrial engineering (Group T - Leuven), as well as a master's degree in information sciences (VUB) and a master's degree in business administration (MBA – KU Leuven). 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



**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

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

**Other mandates and functions:** Chief Executive Officer of the Silver Fund • Chairman of the Protection Fund for Financial Instruments  
 • Chairman of the Pensions fund • Member of the Commission for Nuclear Reserves

**Biography:** Mr 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**

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 • Director of the Institute of Forensic Auditors

**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 and BCC Corporate in 2009. In 2010 she assumed responsibility for the fraud protection department at BNP Paribas Fortis. She has been director in the various companies of the BNP Paribas Fortis Group. She is currently non-executive director of Orange Belgium

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

**THIERRY FRANCO**

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:** Deputy Commissioner General for Investment (Ministry of Economy)

**Biography:** Mr Thierry Franco 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. On 7 October 2013, he was appointed Deputy Commissioner General for Investment.

**Principal fields of expertise:** economics, financial regulation and administration

**VERONIQUE 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 Deputy 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 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 Deputy Vice-President of Dexia Crédit Local.

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

**LUCIE MUNIESA**

22 February 1975 • French • Non-executive director since 2016

Holds no Dexia shares

Director of Dexia Crédit Local

**Term of mandate: 2016-2020**

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

**Principal function:** Deputy General Manager of the French Government Shareholding Agency

**Other mandates and functions:** Representative of the French State, director of Consortium de Réalisation (CDR), Palais de Tokyo SAS, Engie SA, Orange SA and Safran SA

**Biography:** Lucie Muniesa is a graduate of the ENSAI and the ENSAE. She began her career in 1996 in the Statistics department of the French Ministry of Agriculture and the Corporate Statistics department of the INSEE. In 2002, she joined the French Competition Consumption and Repression of Fraud department as Deputy Head of the Mergers and Aid Office. In 2004, she joined the French Government Shareholding Agency as Deputy Head of the Offices "Energy, Chemicals and other Investments" and "La Poste/France Télécom", to become Secretary General in 2007. In 2010, she joined Radio France as Chief Financial Officer, then as Deputy Vice-President responsible for Finance, Purchasing, Legal and Own Resources Development in 2013. In 2014, she was appointed Director and Deputy Secretary General of the Ministry of Culture and Communication. Since 4 February 2016, she has been Deputy General Manager of the French Government Shareholding Agency.

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

**ALEXANDRA SERIZAY**

31 March 1977 • French • Independent 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:** Head of Global Strategic Planning Corporate Services at SODEXO

**Biography:** Alexandra Serizay is a graduate of the ESSEC. She began her career in 1997 as internal auditor with France Télécom Transpac, 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 joined the company SODEXO in September 2017 as Head of Global Strategic Planning Corporate Services.

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

**MICHEL TISON**

23 May 1967 • Belgian • Independent 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 Capricorn ict arkiv SA/NV, kasteel cantevooy beheer SA/NV, Ginkco Fund II SCA, Fund Performa Key de inovacao.

**Biography:** Mr 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 decides alone 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 collective or individual expertise within 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 Dexia's Board of Directors in 2017

During the 2017 financial year, the significant changes in the composition of Dexia's Board of Directors were as follows:

- At the extraordinary shareholders' meeting held on 17 May 2017, Mrs Véronique Hugues and Mrs Alexandra Serizay were definitively appointed to the mandate of director for a term of 4 years ending at the close of the ordinary shareholders' meeting for 2021;
- At the ordinary shareholders' meeting held on 17 May 2017, the directors' mandates of Mrs Thierry Francq, Alexandre De Geest, Koen Van Loo and Bart Bronselaer were renewed for a term of 4 years ending at the close of the ordinary shareholders' meeting for 2021;
- At the ordinary shareholders' meeting held on 17 May 2017, Mrs Martine De Rouck was appointed director for a term of 4 years ending at the close of the ordinary shareholders' meeting for 2021;
- At the Board of Directors meeting held on 29 March 2017, Mrs Véronique Tai and Mrs Aline Bec were appointed observers.

It is to be noted that Mr Corso Bavagnoli resigned from his mandate as a director with immediate effect on 21 March 2018. The appointment of his replacement will be submitted for a resolution by the ordinary shareholders' meeting to be held on 16 May 2018.

## Independent directors

The independence criteria applied to the 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 12 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 that meets 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 2017, namely Mr Robert de Metz, Mr Bart Bronselaer, Mrs Martine De Rouck, Mrs Alexandra Serizay and Mr Michel Tison.

## Non-executive directors

A non-executive member of the Board of Directors is a member who does not exercise management functions in a Dexia Group company. The internal rules of the Board of Directors of Dexia stipulate that at least one half of the Board of Directors must be 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 Johan Bohets and Mrs Véronique Hugues, all the members of the Board of Directors of Dexia are non-executive directors as at 29 March 2018.

The non-executive members of the Board of Directors are entitled to obtain any information necessary for them to perform their mandate properly and may ask management for that information.

## 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 Chief Executive Officer. 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 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 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. 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 integrity of the financial statements;
- f. At least once per annum, adopts and assesses the general principles of remuneration policy and ensures its implementation;
- g. 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;
- h. Justifies the individual and collective skills of the members of the specialised committees in the annual report;
- i. Assesses the performance of the Management Board members; supervises the performance of the Statutory Auditor(s) and internal auditors;
- j. Defines the organisation of advisory and specialised committees with regard to their composition, mode of operation and obligations;
- k. 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;
- l. Examines the governance mechanism, periodically assesses its effectiveness and ensures that corrective measures have been taken to remedy any shortcomings;
- m. Ensures implementation of the Governance Memorandum and the transmission of updates to the supervisory authorities;
- n. 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 on 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 on 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 on 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 2017 financial year

#### Attendance by Board members

The Board met 10 times in 2017. The directors' attendance rate at Board meetings was 95%.

#### ATTENDANCE RATE FOR EACH DIRECTOR AT BOARD OF DIRECTORS' MEETINGS

Corso Bavagnoli	80%
Johan Bohets	100%
Bart Bronselaer	100%
Alexandre De Geest	100%
Martine De Rouck <sup>(1)</sup>	100%
Wouter Devriendt	100%
Robert de Metz	100%
Thierry Francq	90%
Véronique Hugues	100%
Lucie Muniesa	90%
Alexandra Serizay	100%
Michel Tison	100%
Koen Van Loo	80%

(1) Mandate effective as from 17 May 2017.



### 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:

- Orderly resolution plan and alternative strategies;
- Conversion of preference shares;
- Deleveraging policy and new portfolio management approach;
- Dexia Group IT and back office activity outsourcing project;
- Dexia Group solvency and capital relief measures;
- Group liquidity, long-term VLTm, ICAAP funding projections;
- Strategic and IT projects, operational risk management;
- Implementation of the new IFRS 9 accounting standard;
- Corporate governance charter;
- 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.

### 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, 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<sup>(1)</sup>, 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 2017, 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 Université de Gand. 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 2017 financial year

The Audit Committee met seven times in 2017 and dealt in particular with the following matters:

- Group financial statements;
- Reports on risks, liquidity, audit, compliance and permanent control;
- Budget;
- Solvency and capital relief measures;
- Relations with European supervisors;
- Market Abuse Directive
- ICAAP;
- Updating long-term VLTm financial projections;
- Business model and new classification of assets under IFRS 9;
- Impact of the Group deleveraging policy
- Policy regarding the independence of external auditors;
- Anti-money laundering policy;
- Succession of the Auditor General, the Chief Compliance Officer and change to the composition of the audit committee;
- Monitoring recommendations from the internal auditors, external auditors and supervisors.

(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 the Audit Committee's meetings was 100% in 2017.

### ATTENDANCE RATE OF EACH DIRECTOR AT MEETINGS OF THE AUDIT COMMITTEE

Bart Bronselaer	100%
Thierry Francq	100%
Alexandra Serizay	100%
Michel Tison <sup>(1)</sup>	100%

(1) Mandate effective as from 30 August 2017.

## Remit

The Audit Committee is responsible for monitoring the accounts, and 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.

## 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<sup>(1)</sup>, 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 2017, 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, par-

ticularly 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;

- Mrs Lucie Muniesa, non-executive director, Deputy General Manager of the French Government Shareholding Agency, she had sound expertise in finance acquired during her career and in particular within Radio France where she was Chief Financial Officer, then Deputy Vice-President, responsible for Finance, Purchasing, Legal and Own Resources Development. She is director, representing the French State, within the Board of Directors of Consortium de Réalisation, Orange SA, Engie and Safran, where she is also a member of the specialised committees (Audit and Risk Committee and Appointments and Remuneration 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, independent director, is 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.

## Activities during the 2017 financial year

The Risk Committee met eleven times in 2017<sup>(2)</sup> and dealt in particular with the following matters:

- Quarterly risk reports (market, credit, operational and legal risks);
- Quarterly Updating ICAAP recommendations;
- Annual updating of the Risk Appetite Framework;
- Updating liquidity policy;
- Revising internal models;
- Analysing AFS hedge risk;
- EMIR;
- IRBA;
- TRIM;
- Review of monolines;
- Permanent control and compliance work;
- Credit models;
- IFRS9;
- Negative interest rates.

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

(2) Including the meetings of the Audit Committee before the effective split of this committee in an Audit Committee and a Risk Committee.

### Attendance of each individual director

The individual attendance rate for directors at the Risk Committee's meetings was 90% in 2017.

#### ATTENDANCE RATE OF EACH DIRECTOR AT MEETINGS OF THE RISK COMMITTEE

Bart Bronselaer	100%
Michel Tison	100%
Alexandre De Geest	90%
Lucie Muniesa	70%

### 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:

- The implementation of IFRS 9 accounting standard;
- The National Bank of Belgium inspection on market risks.

### Appointments Committee

#### Composition

The Appointments Committee is composed of at least three non-executive directors, including the Chairman of the Board of Directors and at least one independent direc-

tor. 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 2017, the composition of the Appointments Committee was as follows:

- Mr Robert de Metz, independent director and Chairman of the Committee. He has sound expertise in banks, finance and asset management, enhanced by experience in corporate management at an international level. After 4 years in the General Finance Inspectorate of the Ministry of Finance, he held managerial positions for 17 years in business banks and 5 years in asset management. In particular, between 1997 and 1999, he was a member of the Management Board of Paribas (before the merger with BNP), responsible for interest rate, foreign exchange rate and derivative markets, whilst holding executive positions with Paribas in the United Kingdom (2,000 employees), responsible for monitoring relations with the Financial Services Authority. He acquired experience of corporate management by attending Paribas Management Board and Board of Directors meetings from 1994 to 1999. Then, as Deputy Director responsible for strategy and mergers and acquisitions at Vivendi Universal from 2002 to 2007, and in that regard a key member of the team responsible for corporate recovery, he not only took part in meetings of the Vivendi Board of Directors but also those of the main entities in the group including external shareholders, like NBC Universal, majority held by General Electric, for 3 years, Maroc Télécom, for 5 years, and its Audit Committee, Canal + France for 7 years and other subsidiaries held 100% by the group, including a large number of international staff, such as in Universal Music or Vivendi Games.

- 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, 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) will add an additional valuable expertise to 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 2017 financial year

The Appointments Committee met five times in 2017 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 or members of the Management Board or observers;
- The annual report and the remuneration report;
- The Corporate Governance Charter
- Assessing the skills of members of the Board of Directors and of the specialised committees;
- Succession of the General Auditor and the Chief Compliance Officer.
- Updating the Internal Rules of the Board of Directors

## Attendance of each individual director

The individual attendance rate of directors at the Appointments Committee meetings was 93% in 2017.

### ATTENDANCE RATE OF EACH DIRECTOR AT MEETINGS OF THE APPOINTMENTS COMMITTEE

Robert de Metz	100%
Thierry Francq	100%
Koen Van Loo	80%
Martine De Rouck <sup>(1)</sup>	100%

(1) Member of the committee since 30 August 2017.

## The Remuneration Committee

### Composition

In accordance with Article 526quarter of the Companies Code and Article 27 of the Banking Law<sup>(1)</sup>, 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 2017, the Remuneration Committee was composed as follows:

- Mrs Martine De Rouck, independent director and chairman of the Remuneration Committee (see above).
- Mr Robert de Metz, independent director and Chairman of the Committee (see above).
- Mrs Lucie Muniesa, non-executive director, has experience gained in the exercise of her mandates as a director representing the French State within the Board of Directors of Consortium de Réalisation, Orange SA, Engie and Safran, where she is also a member of the specialised committees (Audit and Risk Committee and Appointments and Remuneration Committee). Furthermore, she also has a solid experience as a manager as she regularly supervised teams within the framework of hire functions within the French Government Shareholding Agency, the Ministry of Culture and Communication and Radio France.
- 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.

### 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.

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

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.

### Operation and activities during the 2017 financial year

The Remuneration Committee met four times in 2017 and dealt in particular with the following matters:

- Remuneration of executives and composition of governance bodies;
- Remuneration report;
- Remuneration policy;
- Remuneration of observers
- Succession of the General Auditor and the Chief Compliance Officer.

### Attendance of each individual director

The individual attendance rate of directors at the Remuneration Committee meetings was 100% in 2017.

#### ATTENDANCE RATE OF EACH DIRECTOR AT MEETINGS OF THE REMUNERATION COMMITTEE

Martine De Rouck <sup>(1)</sup>	100%
Alexandre De Geest	100%
Robert de Metz	100%
Lucie Muniesa	100%
Michel Tison	100%

(1) Member of the committee since 30 August 2017.

## The Dexia Management Board

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

### Composition

The Management Board members, other than the Chief Executive Officer, are appointed and dismissed by the Board of Directors based on proposals from the Chief Executive Officer. They are appointed for a renewable four-year period unless the Board of Directors decides otherwise.

As at 31 December 2017, the Management Board is composed of the following members:

- **Wouter Devriendt**, Chief Executive Officer
- **Véronique Hugues**, Chief Financial Officer
- **Guy Cools**, in charge of Assets
- **Johan Bohets**, Chief Risk Officer
- **Benoît Debroise**, in charge of Funding and Markets
- **Aline Bec**, Chief Operating Officer

The composition of the Management Board of Dexia and Dexia Crédit Local is identical.

The Compliance, General Secretariat, Group Structuring 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.



The Management Board (from left to right): Johan Bohets, Aline Bec, Véronique Hugues, Guy Cools, Wouter Devriendt and Benoît Debroise.



## Operation

Since the creation of Dexia in 1999, the Management Board has had its own internal regulations (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 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 on Dexia financial instruments

The Management Board's internal regulations 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

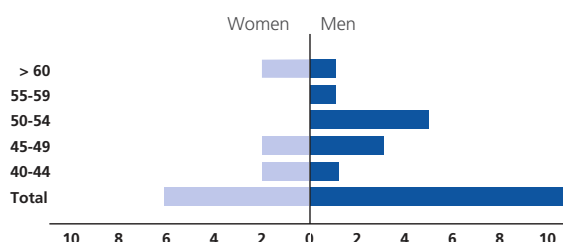
The question of the diversity of members of the Dexia Board of Directors and Management Board is dealt with in the Dexia Group on two lines:

- 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 2017



### 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<sup>(1)</sup> adopted an action plan to achieve the objective set by Article 518 bis of the Companies Code<sup>(2)</sup>. 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<sup>(3)</sup>, 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.

(1) At its 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.



## Expertise, 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 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

According to 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.

## 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 2017

#### 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, the Board of Directors set the gross remuneration of the Chairman of the Board of Directors, on a proposal from the Appointments Committee, at a fixed global annual remuneration of EUR 250,000.

## 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	Appoint- ments Committee	Remu- neration Committee	Total 2017 <sup>(3)</sup>	Total 2016 <sup>(3)</sup>
<b>Directors</b>										
R. de Metz <sup>(2)</sup>	250,000	0	0	0	0	0	0	0	250,000	250,000
W. Devriendt	0	0	0	0	0	0	0	0	0	0
J. Bohets	0	0	0	0	0	0	0	0	0	0
V. Hugues	0	0	0	0	0	0	0	0	0	0
C. Bavagnoli <sup>(1)</sup>	0	12,000	9,000	14,000	0	0	0	0	35,000	26,000
B. Bronselaer <sup>(2)</sup>	0	12,000	12,000	16,000	7,000	13,500	0	0	60,500	50,000
A. De Geest	0	12,000	12,000	16,000		9,000	0	750	49,750	49,250
Th. Francq <sup>(1)</sup>	0	12,000	12,000	16,000	7,000		3,750	0	50,750	38,500
L. Muniesa <sup>(1)</sup>	0	12,000	11,000	14,000		7,000	0	3,000	47,000	25,000
M. De Rouck (appointed 17 May 2017) <sup>(2)</sup>		9,000	9,000	12,000			1,500	750	32,250	N/A
A. Serizay <sup>(2)</sup>	0	12,000	12,000	16,000	10,500		1,000	0	51,500	17,500
M. Tison <sup>(2)</sup>	0	12,000	12,000	16,000	4,000	5,000	0	3,000	52,000	42,000
K. Van Loo	0	12,000	11,000	12,000	0	0	3,000	0	38,000	32,250

(1) In accordance with Article 139 of the French Law on the new economic regulations, attendance fees (fixed and variable portion) for mandates performed by representatives of the French government are to be paid to the French government account.

(2) Independent directors.

(3) Including remuneration received for the director's mandate in Dexia Crédit Local.

### 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 (see hereafter).

### 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 2017, Dexia paid in total EUR 14,237 of special security contributions for directors who are in this situation.

## Remuneration of members of the Management Board of Dexia for 2017

### 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 2017 to the Management Board.

Consequently, no variable remuneration was paid or will be granted for the year 2017 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 2017

The basic remuneration consists solely of a fixed part.

### SUMMARY TABLE OF THE BASIC REMUNERATION PAID IN 2017 TO THE CHAIRMAN OF THE MANAGEMENT BOARD

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

### SUMMARY TABLE OF THE BASIC REMUNERATION PAID IN 2017 TO OTHER MEMBERS OF THE MANAGEMENT BOARD

(in EUR)	Gross basic remuneration
Other members of the Management Board	2,349,375

## Supplementary pension 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 323,935 were paid in 2017 in favour of members of the Management Board including EUR 126,290 for Chairmen of the Management Board and EUR 197,645 for other members of the Management Board.

## Supplementary death cover, permanent invalidity and medical costs

Collective annual premiums of EUR 172,991 were paid in 2017 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 THE DEATH COVER, PERMANENT INVALIDITY AND MEDICAL COSTS PAID IN 2017 TO THE CHAIRMAN OF THE MANAGEMENT BOARD

(in EUR)	Death cover, orphans	Invalidity	Medical costs
Wouter Devriendt	40,680	21,489	517

### SUMMARY TABLE OF THE DEATH COVER, PERMANENT INVALIDITY AND MEDICAL COSTS PAID IN 2017 TO OTHER MEMBERS OF THE MANAGEMENT BOARD

(in EUR)	Death cover, orphans	Invalidity	Medical costs
Other members of the Management Board	40,311	31,353	38,641

## Other benefits to members of the Management Board

### SUMMARY TABLE OF BENEFITS GRANTED IN 2017 TO THE CHAIRMAN OF THE MANAGEMENT BOARD

(in EUR)	Representation costs	Telephone benefit	Car benefit
Wouter Devriendt	6,324	150	4,610

### SUMMARY TABLE OF BENEFITS GRANTED IN 2017 TO OTHER MEMBERS OF THE MANAGEMENT BOARD

(in EUR)	Representation costs	Telephone benefit	Car benefit
Other members of the Management Board	12,648	300	30,602

## 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.

### Specific contractual provisions relating to severance conditions

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.

The management agreements of Messrs Benoît Debroise and Johan Bohets provide that in the event of termination by one of the parties before the expiry of the contract term on grounds other than serious wrong, prior notice of three months will be served on the other party.

## Internal control and risk management system

### Principal characteristics of the internal control system

#### Nature and objectives of internal control

As for all credit institutions, the Dexia Group<sup>(1)</sup> is subject to the Single Supervisory Mechanism and the Single Resolution Mechanism put in place by the European authorities. The objectives and organisation of its internal control fall within the framework defined for these supervisory and resolution mechanisms as well as by the legislation and regulations of the countries in which Dexia operates.

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

The control function contributes to:

- The effectiveness of the risk management process: the aim of the internal control function is to guarantee that the bank's activities are conducted with a degree of control over risks compatible with the level of risks accepted by the Board of Directors;
- Compliance with laws and regulations: internal control contributes to guaranteeing that Dexia fulfils its legal and regulatory obligations;
- The effectiveness and security of operational processes: internal control contributes to the proper functioning of operational processes and the effectiveness of operations, the integrity of information and compliance with decisions taken;
- The accuracy of accounting and financial information: internal control contributes to giving an assurance of the pertinence, accuracy, regularity, exhaustiveness and transparency of the production of accounting and financial information.

#### General architecture of the function

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

- **The first level of control** is performed by each 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

<sup>(1)</sup> 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.

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 Internal Control Committee is the body dedicated to dealing with internal control problems. Its members are the members of the Management Board, the General Auditor and the Chief Compliance Officer, Head of Permanent Control.

### The independence of internal control functions

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

- The General Auditor and the Chief Compliance Officer, Head of Permanent Control report on the results of their control activities directly to the Management Board and to the Board of Directors;
- The General Auditor and the Chief Compliance Officer, Head of Permanent Control 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 and the Chief Compliance Officer, Head of Permanent Control. 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 and the Chief Compliance Officer, Head of Permanent Control. The Board of Directors must give its 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: for the purposes of coordination and information sharing, the internal control functions have established a transversal Internal Control Committee in which internal Audit, the Compliance and Permanent Control department and the Risk activity line are represented. Despite their distinct role, 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 employee 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](http://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 general management and 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 department

In order to manage the support 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 2017

In 2017, the tasks of Internal Audit related to all the Group's major activity lines: Assets ("Management of Project Finance Portfolio", Funding and Markets ("Management of Derivatives"), Risk ("ICAAP process"), Finance ("Tax activities"), General Secretariat ("Outsourcing policies"), Operations and IT Systems ("Payment systems").

Head office audit services were provided to local audit teams at Dexia New York, Dexia Crediop, Dexia Kommunalbank Deutschland and Dexia Israel, particularly in performing tasks relating to the management compliance (AML Compliance).

### 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 2017

In accordance with the principles set out in the Inspection charter, the tasks performed by Inspection in 2017 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 (physical security and the management of movable assets) under an audit mission format.

## The Compliance function

The compliance function is independent. 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 non-compliance risks.

The role and relevant fields of the Compliance function as well as the governance principles underlying the approach adopted by Dexia with regard to compliance are included in the Compliance Charter, which was approved and entered into force in 2009 and was updated in 2014 and 2015.

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 of markets in financial instruments;
- Integrity vis-à-vis clients;
- Data protection and professional secrecy;
- Prevention of conflicts of interest vis-à-vis clients and counterparties;
- 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 at Dexia;
- 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 Dexia's activities. For the fields covered by the compliance function, it ensures the correct 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 activity 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 to ensure observance of 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 Boards, Boards of Directors and Internal Audit Coordination Committees.

## Organisation and positioning

The Chief Compliance Officer of the Dexia Group reports to the Chief Executive Officer. An escalation right enables him to include an item on the agenda of the Management Board if circumstances so demand and to report any significant incidents directly to the Chairman of the Board of Directors of Dexia or to the Audit Committee members.

The Permanent Control function has reported to the Compliance department since 2014.

Since 2015 the Compliance Charter has integrated the contributions of the Directive CRD IV regarding provisions relating to the Chief Compliance Officer and enables the fields of competence of the compliance officers of entities if the regulations so require.

The Internal Control Committee, part of Compliance and Permanent Control, has the role:

- Of taking a consolidated view of risks and controls (operational risk, audit, permanent control and compliance);
- Of making recommendations concerning malfunctions of all incidents associated with operational risk.

Several actions were implemented in 2017, on the one hand to ensure the implementation of measures intended to protect information within the context of the various projects for the restructuring of the Group or outsourcing and, on the other hand to strengthen the protection of personal data (particularly for the treatment of data violations) and the protection of clients. Depending on its role, the Compliance department guides or participates in the ensuring compliance with new regulations.

The rules concerning markets in financial instruments were strengthened in compliance with the amended MiFID 2 regulatory framework applicable since 3 January 2018. Actions were taken to train the staff members concerned in the new regulatory requirements and to commence work on updating internal policies and procedures. That work detailed the new obligations in relation to trading on the platforms authorised for certain categories of financial instruments, post-transaction transparency and the reporting of transactions to the supervisory authorities.

The procedural mechanism dealing with corruption was strengthened in 2017. A code of anti-corruption conduct was introduced and will complete the series of policies and procedures in force.

The anti-money laundering mechanism was strengthened in 2017 with the additions of the 4<sup>th</sup> European Directive on Money Laundering and Terrorism Financing.

Training sessions were organised in all the entities in the compliance fields, including training on the code of professional ethics, in order to recall the key compliance principles, as well as on prevention, with the fight against money laundering and the financing of terrorism.

Compliance has also supported work by the operating departments in connection with moves to ensure compliance with the EMIR regulations and the Dodd Frank Act (Volcker rule).

Concrete actions were gradually put in place to improve supervision of the network of subsidiaries and branches. In particular, updates of compliance policies were deployed in the subsidiaries and branches.

## 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).

Since April 2014, the mechanism for guiding permanent control has relied on a strengthened team under the responsibility of the Chief Compliance Officer, Head of Permanent Control. A unit dedicated to Accounting Control is placed at the level of the Finance department. This unit integrates the results of its works in the consolidated permanent control report which is presented quarterly by the Compliance Permanent Control department to the Board of Directors and, half-yearly, to the Risk Committee. In 2017, Accounting control implemented a control plan for recurring works related to the closing of the financial statements.

Permanent Control relies on a control plan the elements of which cover the main processes of the operational and dedicated units at head office, subsidiaries and branches. First level controls to be integrated in this plan are proposed by decentralised correspondents within the operational or dedicated units of the Compliance and Permanent Control department which may, if necessary, play a prescription role. Compliance and Permanent Control department also identifies second level controls which it is responsible for realising.

The review of the control plan is performed in coherence with the results of the risk control self assessments and the events collected by the Operational Risk department, as well as with process mapping, reports of the internal audit, statutory auditors and the supervisors. After review, the plan is validated by the Management Board.

The Compliance and Permanent Control department ensures, at a consolidated level for all subsidiaries and branches, the proper implementation of the permanent control plan, ensuring in a second reading the proper implementation of controls and by making a critical analysis of the results with regard to risks identified. The Compliance and Permanent Control department may ask for any substantiation of malfunctions observed, and ensure the introduction of action plans, if necessary, enabling any such malfunction observed to be remedied.

The permanent control mechanism is coordinated with other internal control actions and uses a tool and risk references and processes common to the entire Group. The Compliance and Permanent Control department assists the dedicated committee of units in charge of validating valuation models and the observance of internal rating systems. An internal control committee at Management Board level enables a consolidated view to be provided

with the works of Internal Audit, the Compliance department and the Operational Risk department and IT Systems Security.

## Characteristic 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.

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.

As at 1 November 2017, Dexia outsourced its IT and back office activities in Paris and Brussels to the company Cognizant Horizon. Continuity was a key element of the transfer of activities. The members of staff concerned did not move and remained in the same building. They kept their e-mail addresses and the organization hardly evolved. Moreover, more than half of the activities was already performed by consultants.

### Dexia statutory financial statements

Dexia accounting is kept in Brussels and also in the permanent establishment in Paris. On a monthly basis, all transactions recorded in the financial statements of the branch are integrated at the registered office 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 SC s.f.d. SCRL, the mandate of which was renewed by the ordinary shareholders' meeting in May 2017 and the company Mazars Reviseurs d'Entreprises SCRL, 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 2017 for Dexia and the whole Group.

<b>DELOITTE</b>	<b>Services provided for Dexia</b>	<b>Services provided for the Dexia Group (consolidated amounts)</b>
(in EUR)		
a) Audit of the financial statements	175,000	2,938,874
b) Other tasks (non-certification)	38,445	708,935
<b>TOTAL</b>	<b>213,445</b>	<b>3,647,809</b>

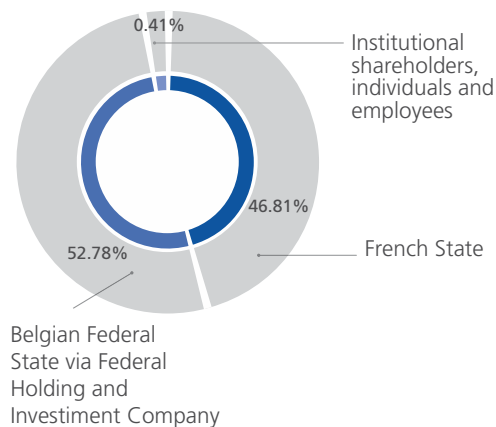
<b>MAZARS</b>	<b>Services provided for Dexia</b>	<b>Services provided for the Dexia Group (consolidated amounts)</b>
(in EUR)		
a) Audit of the financial statements	175,000	2,431,211
b) Other tasks (non-certification)	7,920	596,524
<b>TOTAL</b>	<b>182,920</b>	<b>3,027,735</b>

## 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.

Dexia received a notification from the French State on 7 December 2017 following the weighted conversion of preference shares in class B.



## General information

### Overview of Dexia's direct holdings as at 31 December 2017

Dexia's direct holdings as at 31 December 2017 are 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.

### 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 2017

The shareholder structure is detailed on page 39, and the information relating to the share capital is provided on page 27 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.

### Agendas for shareholders' meetings

The agendas for the ordinary shareholders' meeting and the extraordinary shareholders' meeting to be held on Wednesday 16 May 2018 in Brussels are available on Dexia's website: [www.dexia.com](http://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.

**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 44 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 authorisation to acquire and dispose of own shares was granted by the shareholders' meeting on 8 May 2013 is valid for a five-year period ending in 2018. Renewal of the authorisation to acquire and dispose of own shares will be proposed to the extraordinary shareholders' meeting to be held on 16 May 2018.

**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**

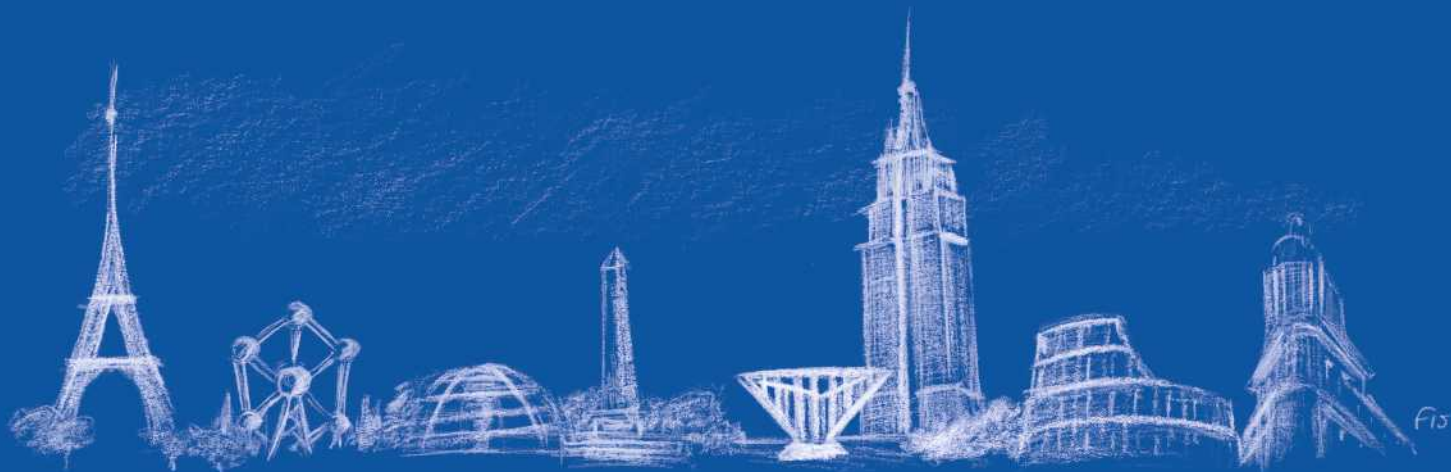
Dexia is not party to any major agreement liable to enter into force, be amended or terminated as a result of a change of control over the company within the context of a public tender offer.

**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.



68		Consolidated balance sheet
68		Assets
69		Liabilities
70		Consolidated statement of income
71		Consolidated statement of comprehensive income
72		Consolidated statement of changes in equity
74		Consolidated cash flow statement
75		Cash and cash equivalents
76		Notes to the consolidated financial statements
76		1. Accounting policies and valuation methods, ownership interest in subsidiaries and other entities, significant items included in the statement of income, other significant events of the year and post-balance-sheet events
97		2. Notes on the assets
106		3. Notes on the liabilities
111		4. Other notes on the balance sheet
120		5. Notes on the statement of income
127		6. Notes on off-balance-sheet items
128		7. Notes on risk exposure
146		8. Segment and geographic reporting
147		Statutory Auditors' report on the consolidated financial statements for the year ended 31 December 2017



# Consolidated Financial Statements as at 31 December 2017

# Consolidated balance sheet

<b>ASSETS</b>		<b>Notes</b>	<b>31/12/2016</b>	<b>31/12/2017</b>
(in EUR million)				
I.	Cash and central banks	2.0	4,223	10,721
II.	Financial assets at fair value through profit or loss	2.1 & 4.1	17,781	13,188
III.	Hedging derivatives	4.1	6,830	4,985
IV.	Financial assets available for sale	2.2	16,568	10,830
V.	Interbank loans and advances	2.3	7,503	6,144
VI.	Customer loans and advances	2.4	119,206	99,264
VII.	Fair value revaluation of portfolio hedges		1,750	1,314
VIII.	Financial assets held to maturity	2.5	1,918	1,750
IX.	Current tax assets	2.6	29	19
X.	Deferred tax assets	2.6	32	29
XI.	Accruals and other assets	2.7	36,884	30,550
XII.	Non current assets held for sale	4.5	0	2,105
XV.	Tangible fixed assets	2.8	15	4
XVI.	Intangible assets	2.9	32	35
<b>TOTAL ASSETS</b>			<b>212,771</b>	<b>180,938</b>

The notes on pages 76 to 146 are an integral part of these consolidated financial statements.

<b>LIABILITIES</b>		<b>Notes</b>	<b>31/12/2016</b>	<b>31/12/2017</b>
(in EUR million)				
I.	Central banks	3.0	690	0
II.	Financial liabilities at fair value through profit or loss	3.1 & 4.1	18,676	14,193
III.	Hedging derivatives	4.1	33,796	27,858
IV.	Interbank borrowings and deposits	3.2	40,238	31,016
V.	Customer borrowings and deposits	3.3	10,778	6,404
VI.	Debt securities	3.4	98,524	89,654
VII.	Fair value revaluation of portfolio hedges		100	41
VIII.	Current tax liabilities	3.5	7	1
IX.	Deferred tax liabilities	3.5	28	0
X.	Accruals and other liabilities	3.6	4,446	3,941
XI.	Liabilities included in disposal groups held for sale	4.5	0	1,894
XIII.	Provisions	3.7	432	374
XIV.	Subordinated debt	3.8	482	160
<b>Total liabilities</b>			<b>208,197</b>	<b>175,536</b>
<b>Equity</b>		3.9	<b>4,574</b>	<b>5,402</b>
XVI.	Equity, Group share		4,147	4,992
XVII.	Capital stock and related reserves		2,486	2,489
XVIII.	Consolidated reserves		7,018	7,228
XIX.	Gains and losses directly recognised in equity		(5,710)	(4,263)
XX.	Net result of the period		353	(462)
XXI.	Minority interests		427	410
<b>TOTAL LIABILITIES AND EQUITY</b>			<b>212,771</b>	<b>180,938</b>

The notes on pages 76 to 146 are an integral part of these consolidated financial statements.

# Consolidated statement of income

(in EUR million)		Note	31/12/2016	31/12/2017
I.	Interest income	5.1	10,016	9,866
II.	Interest expense	5.1	(9,818)	(9,696)
III.	Commission income	5.2	18	15
IV.	Commission expense	5.2	(18)	(18)
V.	Net gains (losses) on financial instruments at fair value through profit or loss	5.3	275	(84)
VI.	Net gains (losses) on financial assets available for sale	5.4	76	(162)
VII.	Other income	5.5	82	89
VIII.	Other expenses	5.6	(125)	(74)
<b>IX.</b>	<b>NET BANKING INCOME</b>		<b>506</b>	<b>(64)</b>
X.	Operating expenses	5.7	(391)	(406)
XI.	Depreciation, amortisation and impairment of tangible fixed assets and intangible assets	5.8	(16)	(15)
<b>XII.</b>	<b>GROSS OPERATING INCOME</b>		<b>99</b>	<b>(485)</b>
XIII.	Cost of risk	5.9	140	33
<b>XIV.</b>	<b>OPERATING INCOME</b>		<b>239</b>	<b>(452)</b>
XVI.	Net gains ( losses) on other assets	5.10	54	2
<b>XVIII.</b>	<b>NET RESULT BEFORE TAX</b>		<b>293</b>	<b>(450)</b>
XIX.	Income tax	5.11	42	(13)
XX.	Result from discontinued operations, net of tax		17	2
<b>XXI.</b>	<b>NET INCOME</b>		<b>352</b>	<b>(461)</b>
XXII.	Minority interests		(1)	1
<b>XXIII.</b>	<b>NET INCOME, GROUP SHARE</b>		<b>353</b>	<b>(462)</b>
	<b>Earnings per share, Group share (in EUR) <sup>(1)</sup></b>	<b>5.12</b>		
	Basic		181.23	(15.63)
	- from continuing operations		172.65	(15.64)
	- from discontinued operations		8.58	0.01
	Diluted		11.43	(15.63)
	- from continuing operations		10.89	(15.64)
	- from discontinued operations		0.54	0.01

(1) 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, the average number of shares increased from 1,948,661 as at 31 December 2016 to 29,574,253 as at 31 December 2017. We also refer to the note 3.9 Information on equity.

The notes on pages 76 to 146 are an integral part of these consolidated financial statements.

# Consolidated statement of comprehensive income

(in EUR million)

	31/12/2016			31/12/2017		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
<b>NET INCOME</b>			<b>352</b>			<b>(461)</b>
<b>Elements reclassified or likely to be subsequently reclassified in net income</b>						
Cumulative translation adjustments	38		38	(130)		(130)
Revaluation of financial assets available for sale or reclassified into loans and receivables or into held-to-maturity financial assets <sup>(1)</sup>	(215)	22	(193)	1,036	(3)	1,033
Revaluation of hedging derivatives	(194)		(194)	415		415
Other comprehensive income from disposal groups held for sale <sup>(2)</sup>				48	(1)	47
<b>Elements that will never be reclassified or likely to be subsequently reclassified in net income</b>						
Actuarial gains and losses on defined benefit plans	(3)		(3)	3	(1)	2
Changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk during the period				(75)	27	(48)
Amount of own credit risk reclassified upon derecognition from accumulated other comprehensive income to consolidated reserves for the period <sup>(3)</sup>				(17)		(17)
<b>TOTAL UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY</b>	<b>(374)</b>	<b>22</b>	<b>(352)</b>	<b>1,280</b>	<b>22</b>	<b>1,302</b>
<b>NET RESULT AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY</b>			<b>0</b>			<b>841</b>
of which, Group share			2			839
of which, Minority interests			(2)			2
<b>NET RESULT AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY FROM CONTINUING ACTIVITIES</b>	<b>(81)</b>	<b>64</b>	<b>(17)</b>	<b>830</b>	<b>9</b>	<b>839</b>
of which, Group share			(15)			837
of which, Minority interests			(2)			2

(1) 31/12/2017 : the variation is explained for EUR 771 million by the changes in fair value directly recognised in own funds mainly as a consequence of the tightening of the spreads on Italian, Portuguese and Polish sovereigns.

(2) Dexia Israel is presented as Non current assets held for sale, its gains and losses directly recognised in equity (EUR 29 million, group share and EUR 18 million, minority interests) are presented separately.

(3) Termination of Guaranteed Investment Contracts (GICs)

The notes on pages 76 to 146 are an integral part of these consolidated financial statements.



# Consolidated statement of changes in equity

	Capital stock and related reserves				Consolidated reserves	Gains and losses directly	
	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 cash flow hedges, net of taxes
(in EUR million)							
AS AT 31 DECEMBER 2015	500	1,990	(4)	2,486	6,907	(4,337)	(1,224)
Adjustment on opening equity <sup>(1)</sup>					(53)		79
AS AT 1 JANUARY 2016	500	1,990	(4)	2,486	6,854	(4,337)	(1,145)
Movements during the period							
Appropriation of net income 2015					163		
Subtotal of shareholders related movements					163		
Translation adjustments							
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						(502)	
Changes in fair value of derivatives through equity							(181)
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						314	
Changes in fair value of derivatives through profit or loss							(13)
Changes in actuarial gains and losses on defined benefit plans							
Subtotal of changes in gains and losses directly recognised in equity						(188)	(194)
Net income for the period							
Other variations					1		
AS AT 31 DECEMBER 2016	500	1,990	(4)	2,486	7,018	(4,525)	(1,339)
First application of IFRS 9 standard regarding own credit risk of financial liabilities at fair value <sup>(2)</sup>					(146)		
AS AT 1 JANUARY 2017 after first application of IFRS9 standard regarding own credit risk	500	1,990	(4)	2,486	6,872	(4,525)	(1,339)
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 upon derecognition from accumulated other comprehensive income to equity for the period					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	
Changes in fair value of derivatives through equity							341
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	
Changes in fair value of derivatives through profit or loss							76
Changes in actuarial gains and losses on defined benefit plans							
Changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk during the period							
Transfers <sup>(3)</sup>						(1)	
Subtotal of changes in gains and losses directly recognised in equity					17	1,030	417
Net income for the period							
Other variations <sup>(4)</sup>					(11)		
AS AT 31 DECEMBER 2017	500	1,990	(1)	2,489	7,228	(3,495)	(922)

(1) As a result of errors in the past, opening consolidated reserves have been reviewed for a net amount of EUR - 53 million. This includes EUR - 79 million, representing the amount of the cash flow hedge reserve related to transactions in the past and for which there isn't any longer justification for future transactions and also EUR + 26 million, following a wrong representation in the past of a currency-denominated transaction that matured in 2016.

(2) 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 gains and losses directly recognised in equity. The total amount of own credit risk as at 31 December 2016 (USD - 155 million) has been transferred in gains and losses directly recognised in equity.

The notes on pages 76 to 146 are an integral part of these consolidated financial statements.

recognised in equity					Net income, Group share	EQUITY, GROUP SHARE	Minority interests			EQUITY
Actuarial gains and losses on defined benefit plans	Own credit risk of financial liabilities designated at fair value through result, net of taxes	Translation adjustments	Change in unrealised or deferred gains and losses related to non current assets held for sale	Total			Capital and reserves	Gains and losses directly recognised in equity	Total	
0		123	0	(5,438)	163	4,118	446	(17)	429	4,547
				79		26				26
0		123	0	(5,359)	163	4,144	446	(17)	429	4,573
					(163)	0				
					(163)	0				
		34		34		34		4	4	38
				(502)		(502)		(5)	(5)	(507)
				(181)		(181)				(181)
				314		314		1	1	315
				(13)		(13)				(13)
(3)				(3)		(3)		(1)	(1)	(4)
(3)		34		(351)		(351)		(1)	(1)	(352)
					353	353	(1)		(1)	352
						1				1
(3)		157	0	(5,710)	353	4,147	445	(18)	427	4,574
	146			146						0
(3)	146	157	0	(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)		0				0
				770		770		1	1	771
				341		341		(3)	(3)	338
				261		261		1	1	262
				76		76				76
2				2		2		1	1	3
	(48)			(48)		(48)				(48)
		(28)	29	0		0				0
2	(65)	(109)	29	1,304		1,321		(3)	(3)	1,318
					(462)	(462)	1		1	(461)
		(3)		(3)		(14)	11	3	14	0
(1)	81	45	29	(4,263)	(462)	4,992	428	(18)	410	5,402

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

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

# Consolidated cash flow statement

(in EUR million)	31/12/2016	31/12/2017
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net income after income taxes	352	(461)
Adjustment for:		
- Depreciation, amortisation and other impairment	16	15
- Impairment losses (reversal impairment losses) on bonds, equities, loans and other assets	(240)	(51)
- Net (gains) or losses on investments	(56)	(6)
- Net increases (net decreases) in provisions	34	(123)
- Unrealised (gains) or losses	(211)	131
- Deferred taxes	(110)	1
Changes in operating assets and liabilities	139	7,019
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(76)</b>	<b>6,525</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(19)	(16)
Sale of fixed assets	331	4
Sales of unconsolidated equity shares	48	16
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>360</b>	<b>4</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Issuance of new shares (minority interests) <sup>(1)</sup>	0	4
Reimbursement of subordinated debts <sup>(2)</sup>	(5)	(282)
Dividends paid (minority interests) <sup>(1)</sup>	0	(33)
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>(5)</b>	<b>(311)</b>
<b>NET CASH PROVIDED</b>	<b>279</b>	<b>6,218</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>5,467</b>	<b>5,779</b>
Cash flow from operating activities	(76)	6,525
Cash flow from investing activities	360	4
Cash flow from financing activities	(5)	(311)
Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents	33	(120)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>5,779</b>	<b>11,877</b>
<b>ADDITIONAL INFORMATION</b>		
Income tax paid	(2)	(22)
Dividends received	13	2
Interest received	10,135	10,290
Interest paid	(10,065)	(10,236)

(1) Dexia Israel.

(2) See note 3.8 b.

The notes on pages 76 to 146 are an integral part of these consolidated financial statements.

# Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents include the following balances with initial maturities of less than 90 days:

## a. Analysis by nature

(in EUR million)	31/12/2016	31/12/2017
Cash and central banks (note 2.0)	4,223	10,721
Interbank loans and advances (note 2.3)	1,556	444
Non current assets held for sale	0	712
<b>TOTAL</b>	<b>5,779</b>	<b>11,877</b>

## b. Of which, restricted cash:

(in EUR million)	31/12/2016	31/12/2017
Mandatory reserves <sup>(1)</sup>	293	61
<b>TOTAL</b>	<b>293</b>	<b>61</b>

(1) Minimum required reserve deposits at the European Central Bank (ECB) or at other central banks.

The notes on pages 76 to 146 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 and post-balance-sheet events

1.1. Accounting policies and valuation methods	76	1.4. Other significant event of the year	95
1.2. Ownership interest in subsidiaries and other entities	92	1.5. Post-balance-sheet events	96
1.3. Significant items included in the statement of income	95		

### 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 29 March 2018.

#### 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 2017, 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 2017 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions underlying the business plan for the resolution of the Dexia Group, listed below.

- The business plan was constructed from market data available at the end of September 2012; the underlying macro-economic assumptions are reviewed as part of the half-yearly reviews of the overall plan.

In particular, the updates made on the basis of market data observable as at 30 June 2017 and validated by the Board of Directors of Dexia on 14 November 2017 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments to date, such as the final version of the CRD IV Directive and implementation of the IFRS 9 accounting standard from 1 January 2018, based on the assumptions known to date.

The business plan thus revised leads to adjustments in relation to the original plan. These result in a significant change to the trajectory of the Group's resolution as initially anticipated, in particular in terms of profitability, solvency and funding structure, but at this stage they do not raise questions as to the nature and the fundamentals of the resolution.

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

- It moreover assumes that Dexia will retain a sound funding capacity, which relies in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on the Group's capacity to raise secured funding.

Since validation of the orderly resolution plan in December 2012, the Group's funding structure has benefited from an increase of market funding, both secured and guaranteed, at a cost considerably lower than anticipated in the business plan, and for larger volumes and longer maturities. This has enabled the Group, firstly, to exit the exceptional funding mechanisms put in place in 2012 and, secondly, to reduce to zero its reliance on central bank funding as at 31 December 2017<sup>(1)</sup>. Furthermore, Dexia implements a prudent liquidity management and maintains important liquidity reserves.

<sup>(1)</sup> 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.

- It is in particular exposed to the evolution of accounting and prudential rules.
- The financial characteristics of Dexia since its entry in resolution do not allow it to ensure constant compliance with certain regulatory ratios over the resolution period.

The Dexia Group is also sensitive to the evolution of its macroeconomic environment and to market parameters, including exchange rates, interest rates and credit spreads, fluctuations of which are liable to impact the business plan. In particular, an unfavourable evolution of these parameters over time may weigh on the Group's liquidity and its solvency position, by increasing the amount of cash collateral paid by Dexia to its derivatives counterparties or an impact on valuations of the financial assets and liabilities and OTC derivatives, fluctuations of which are booked in the income statement and are liable to result in a fluctuation of the AFS reserve and the level of the Group's regulatory capital.

- Finally, if market demand for government-guaranteed debt were to decline, Dexia may need to turn to more costly funding sources which would directly impact the profitability assumed in the original business plan.

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 "loans and receivables", "held to maturity", "available for sale", "held for trading" and "fair value option" for measurement purposes based on instrument's characteristic and Dexia's intention (see 1.1.6.);
- 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.);
- determination of fair value for financial instruments measured at fair value by means of valuation techniques (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.);
- identification of impairment triggers (see 1.1.6.5.).

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 the recoverable amount of impaired financial assets and fair value less costs to sell for non-current assets and disposal groups held for sale (see 1.1.6.5., 1.1.15.);
- the measurement of hedge effectiveness in hedging relations (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.).

### 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 2017

- Amendment to IAS 7 "Disclosure Initiative". This amendment has an impact on the notes to Dexia's financial statements regarding financing activities (see note 3.8).
- Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses". This amendment does not have a material impact on Dexia's financial statements.
- Amendment to IFRS 12 "Disclosure of Interests in Other Entities" ("Annual Improvements 2014-2016"). This amendment does not impact the financial statements of Dexia.

#### 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 2017

- IFRS 16 "Leases". This standard, in replacement of the current IAS 17 standard and related interpretations, sets out a comprehensive model for the identification and treatment of lease arrangements.

IFRS 16 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. So, 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.

In contrast, IFRS 16 does not include significant changes to lessor accounting. IFRS 16 is effective as from 1 January 2019 and the impact on Dexia's financial statements is currently being assessed. Dexia launched its IFRS 16 project in 2017 and the initial impact assessment studies of the application of the standard have been performed. At this stage, no final decision has been taken regarding the transition approach to be applied.

- Clarification to IFRS 15 "Revenue from Contracts with Customers". This amendment is effective as from 1 January 2018 together with the new standard IFRS 15 (see 1.1.2.4.).
- Amendment to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts". This amendment is effective as from 1 January 2018 and will have no impact on



the financial statements of Dexia as Dexia is not involved in insurance activities.

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

- IFRS 17 “Insurance Contracts” (issued by IASB in May 2017). This standard, 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.

- IFRIC 23 “Uncertainty over Income Tax Treatments” (issued by IASB in June 2017). This interpretation is effective as from 1 January 2019 and the impact on Dexia’s financial statements is currently being assessed.

- Amendment to IAS 28 “Long-term Interests in Associates and Joint Ventures” (issued by IASB in October 2017). This amendment is effective as from 1 January 2019 and will have no impact on the financial statements of Dexia.

- Amendment to IFRS 9 “Prepayment Features with Negative Compensation” (issued by IASB in October 2017). This amendment addresses the case of instruments incorporating prepayment features with negative compensation and aims to clarify the conditions allowing instruments to be measured at amortised cost or fair value through other comprehensive income. This amendment is effective as from 1 January 2019 with earlier application permitted after its adoption by the European Commission and the impact on Dexia’s financial statements is presented in the paragraph 1.1.2.5.

- Annual Improvements 2015-2017 cycle (issued by IASB in December 2017), which are a collection of amendments to existing IFRS and are effective as from 1 January 2019. Dexia does not expect these amendments to have a material impact on its financial statements as those amendments are related to minor adjustments of some IFRS standards.

### 1.1.2.4. New standard IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 “Revenue from Contracts with Customers” establishes the principles for accounting for revenue arising from contracts with customers. This standard is effective as from 1 January 2018. Dexia has elected to adopt IFRS 15 using the retrospective approach under which transitional adjustments will be recognized in retained earnings on the date of initial application of the standard (modified retrospective approach).

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, Dexia does not expect IFRS 15 to have a material impact on its financial statements.

### 1.1.2.5. New standard IFRS 9 “Financial Instruments”

IFRS 9 “Financial Instruments” was issued by IASB in July 2014 and adopted by the European Union on 22 November 2016. This standard, that is mandatorily effective for periods beginning on or after 1 January 2018, brings together three following phases to replace IAS 39 “Financial Instruments: Recognition and Measurement”: classification and measurement, impairment and hedge accounting. Macro hedge accounting is addressed as a separate project by the IASB.

Changes introduced by IFRS 9 include:

- 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.

## Classification and measurement

### Financial assets

Under the new classification model, financial assets are measured either at amortised cost, fair value through equity (other comprehensive income) or fair value through profit or loss. The classification of financial assets is based on both: the analysis of the contractual cash flow characteristics of the assets and the business model for managing these assets.

If the contractual terms of the financial asset do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding, the asset does not qualify as a “basic” instrument as defined by the standard and so will be measured at fair value through profit or loss. This applies to both debt instruments and equity instruments. On the other hand, the assets which are considered as “basic” will be measured at amortised cost or at fair value through other comprehensive income based on the business model for managing these assets.

A financial asset will be measured at amortised cost if the contractual terms of the asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding and if the asset is held within a business model whose objective is to hold the financial assets to collect the contractual cash flows.

A financial asset must be measured at fair value through other comprehensive income if the contractual terms of the asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding and if the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The financial assets considered as “basic” but not classified into any of these two business models are measured at fair value through profit or loss. This is the case for example for the financial assets held in a trading portfolio.

Under certain conditions, in order to eliminate or reduce a measurement or recognition inconsistency (“accounting mismatch”), an entity can elect to designate a “basic” financial asset as measured at fair value through profit or loss.

On the other hand, for equity investments not held in a trading portfolio an entity can make an irrevocable election at initial recognition to present future fair value changes in equity (other comprehensive income) (without recycling to profit or loss in the event of disposal). These equity investments would otherwise be measured at fair value through profit or loss. Assets classified into this category are not subject to impairment.

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).

The contractual terms of the asset that give rise to payments of solely principal and interest represent primarily compensation for the time value of money and credit risk and can also include consideration for other risks (liquidity risk) and costs (administrative costs) associated with holding the financial asset for a period of time, as well as a profit margin.

Derivative instruments continue to be measured at fair value through profit or loss. If they are designated as hedging instruments, they are measured based on the type of hedging relationship.

### Financial liabilities

Under IFRS 9, financial liabilities are measured either at amortised cost or at fair value through profit or loss or they can be designated at fair value through profit or loss using the fair value option in the same way as under IAS 39.

The main change introduced by IFRS 9 includes the recognition of changes in the fair value attributable to own credit risk in equity for financial liabilities designated at fair value through profit or loss, without recycling to profit or loss.

### Impairment

The IFRS 9 standard introduces a new impairment model of financial assets based on expected credit losses. This new impairment model applies to debt instruments (loans or bonds) measured at amortised cost or debt instruments 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. For the latter mentioned, expected credit losses are booked on the liability side of Dexia's Balance sheet.

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 buckets depending of the evolution of credit risk since initial recognition.

- Bucket 1: Financial instruments that have not deteriorated significantly in credit quality since initial recognition
- Bucket 2: Financial instruments that have deteriorated significantly in credit quality since initial recognition but that do not have objective evidence of a credit loss
- Bucket 3: Financial assets that have objective evidence of impairment at the reporting date

The amount of loss allowance and the calculation of interest revenue based on the Effective Interest Rate (EIR) method depend on the bucket in which the financial instrument is allocated.

When the financial instrument is in Bucket 1, the amount of loss allowance is equal to 12-month expected credit losses, while in bucket 2 and 3, the amount of loss allowance is equal to lifetime expected credit losses.

Interest revenue for financial assets allocated in Bucket 1 or 2 are calculated by applying the EIR to the gross carrying amount, while for financial assets in bucket 3, EIR applied to amortised cost.

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

As the definition of default is not precisely provided by the IFRS 9 standard, Dexia choose to use the prudential definition provided by the regulation No 575/2013 (CRR) of the European Union, consistently with the definition used for internal credit risk management. According to Article 178 of this regulation, a counterparty shall be considered as defaulted when:

- the obligor is unlikely to pay its credit obligations towards Dexia, or any of its subsidiaries in full, without recourse by the institution to actions such as realizing security
- the obligor is past due more than 90 days on any material credit obligation.

Following the European Central Bank (ECB) request for adopting the materiality threshold of the European Banking Authority (EBA) for past dues, Dexia's threshold is a fixed amount established at EUR 500 as from 1 January 2015. This threshold takes into account nominal past due, past due on interest or late payment interest (including penalties) or commissions.

A past due is defined as a payment that has become due but has not been made according to the terms of the agreement. Thus, two debts due on the same date but not paid will therefore constitute two separate past due.

The notion of default is defined at the counterparty level. This means that if one of the criteria allowing the identification of a default is observed only on a part of the exposures of the counterparty, then the counterparty is considered in default for all its exposures.

Dexia is not planning to use the simplified approach allowed by IFRS 9 for trade receivables (that have a significant financing component) or lease receivables.

### Hedge accounting

The new hedge accounting model of IFRS 9 aims to more closely align accounting treatment with risk management by reinforcing certain principles and by removing certain rules which were considered as too prescriptive.

IFRS 9 does not fundamentally change the current types of hedging relationships and the requirements to measure and recognise ineffectiveness. Three hedge accounting models – fair value hedge, cash flow hedge and net investment hedge – are retained.

In line with the objectives, the main changes introduced by the standard include the following:

- additional exposures may be designated as hedged items;
- increased eligibility of hedging instruments and change in accounting treatment for the time value of purchased options considered as a cost of hedging;
- introduction of a new alternative to hedge accounting: fair value through profit or loss option designation for credit exposures managed with credit derivatives;
- more flexible effectiveness criteria;
- extensive additional disclosures to be provided.

While awaiting the future standard on macro hedging, IFRS 9 permits to keep applying the current hedge accounting requirements (IAS 39) for all hedge relationships or only for macro-hedge relationships. It is also possible, starting from 2018, to apply the IFRS 9 standard to all hedge relationships. The pros and cons of application of the new approach related to hedge accounting have been assessed. Waiting for the future IASB standards on Macro-hedge, Dexia decided to maintain the requirements of IAS 39 for all the hedge relationships (micro and macro-hedge).

### On-going transition project and impacts

The impacts of IFRS 9 on the financial statements and the financial and prudential own funds of Dexia are being finalised and audited. Being aware that IFRS 9 is a major issue for banking institutions, Dexia launched its IFRS 9 project in the first quarter of 2015. The project was co-lead by the Chief Financial Officer and the Chief Risk Officer.

The diagnostic and impact assessment studies of the application of the standard have been performed:

#### On the first phase of the standard, Dexia has analysed the characteristics of all its financial assets in order to determine the classification and measurement method;

Based on the analysis of products 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. These assets are mainly vanilla floating or fixed rate loans or securities. A part of these loans or securities implies, in case of early redemption, the payment or reception by the borrower of an indemnity which depends on the evolution of the level of market interest rates. These early redemption fees, which are symmetrical, have been discussed at the IASB level, regarding the consistency of this feature with the SPPI conditions. On 12 October 2017, the IASB issued an amendment to IFRS 9 "Prepayment features with negative compensation". This amendment clarifies the conditions allowing these instruments to be measured at amortised cost or fair value through other comprehensive income and will be effective as from 1 January 2019 with earlier application permitted. This amendment has not been yet adopted by the European Commission. In order to ensure the continuity of the accounting principles applied for the IFRS 9 adoption as of 1 January 2018 and subsequently, Dexia decided to early apply the requirements of this amendment for the impact determination of the IFRS 9 first time application on its financial statements.

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) will be classified at Fair Value Through Profit or Loss.

Most of equity instruments or mutual funds units will be classified at fair value through profit or losses. However, some equity instruments may, on a case by case basis, be classified at fair value through equity (but without transfer into Profit or Losses upon sales).

For financial assets considered as SPPI, the classification at amortised cost or at Fair Value Through equity depends on Dexia's holding strategy.

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 assets which will be measured at amortised cost. Another part of Dexia's financial assets, isolated in dedicated portfolios, is held for sale when market opportunities will appear. The trade-off between these two portfolios was subject to strategic decisions made by Dexia during 2017. Apart from derivatives, the trading portfolio of Dexia which is already measured at fair value through profit or loss will remain limited.

#### On the second phase of the standard, Dexia has developed a new impairment model;

As stated above, the financial assets are allocated amongst 3 buckets based on default of counterparties, as defined by the prudential regulation and consistently with the definition used for internal credit risk management.

The classification in bucket 1 or 2 depends on:

- a quantitative test which assesses the deterioration of credit risk since the initial accounting recognition and whether this deterioration is significant. This test is based on the probability of default evolutions between the exposure origination date and the current date of reporting;
- a qualitative test including the review of watchlist<sup>(1)</sup> exposures, the identification of forboren<sup>(2)</sup> exposures and also the analysis of sensible economic sectors. If one of these two tests is met, the exposure is classified in bucket 2, else in bucket 1.

The estimation of loss allowance allocated to each exposure is based on an expected loss model, on a 12-month horizon for bucket 1 and a life-time horizon for bucket 2 and 3.

The expected losses are based on the Exposure at Default, the Probability of Default and the Loss Given Default point in time and forward looking, which take into account assumptions on macroeconomic forecast at medium term. These expected losses also take into account the uncertainty related to these macro-economic assumptions.

Dexia also reviewed new disclosure requirements in the consolidated financial statements.

In 2017, Dexia continued working on the operational implementation of accounting principles. The management and accounting information systems and internal process were adapted in order to comply with the new requirements for internal and external reporting related to IFRS 9. These modifications went through several phases of testing during 2017 for the implementation as from 1st January 2018. The reporting on the status of the IFRS 9 project was done on regular basis to the Management Board and also to the Board of Directors and the Audit Committee.

#### 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, in the 2018 annual report, comparative information under IFRS 9 but to maintain comparative information under IAS 39.

#### First time application impacts on the financial statements of Dexia

The impact of the adjustments related to the new IFRS 9 classification and measurements will be recognised on 1st January 2018, directly in equity of Dexia on a retrospective basis, as if the assets were classified as such from inception.

(1) The Watch-list Committee supervises assets considered "sensitive", placed under watch, and decides on the amount of impairments set aside.

(2) The definition of forbearance groups together facilities granted by banks to counterparties experiencing or about to experience financial difficulties in dealing with their commitments (facilities which banks would not otherwise have granted).

Dexia expects that the first application of IFRS 9 will have the following impacts on its own funds on 1st January 2018 (listed in the order of importance):

- Reclassification of Available For Sale assets into amortised cost, involving a significant positive impact related to the release of unrealised gains or losses recognized in equity under IAS 39 (including “frozen AFS reserve” related to previous reclassification under IAS 39 from securities Available For Sale or Held For Trading into Held To Maturity or Loans and Receivables categories that are retrospectively cancelled upon transition to IFRS 9). These reserves amount to EUR -3.5 billion (Group share) as at 31 December 2017;
- Reclassification of debt securities and loans held for sale when market opportunities will appear from amortised cost category (Loans and Receivables under IAS 39) to Fair Value Through Equity category (IFRS 9) which lead to the recognition of unrealised gains or losses in own funds. The expected impact is negative since the credit spreads have widened from inception.
- Reclassification of debt securities and structured loans, mainly from the amortised cost to the Fair Value Through P&L category, because of their characteristics. The impact of the fair valuation of these assets is negative since the credit spreads have widened from inception, the interest rate risk being hedge besides.
- Recognition of additional provisions for credit risk. No major modification is expected for assets in bucket 3 since the methodology for specific provision is very close to the current one under IAS 39. Provisions on asset in bucket 1 should be limited since the Expected Loss is estimated on a 12-month horizon. However, the increase of provisions will be more significant for assets in bucket 2 which include financial instruments that have been deteriorated significantly in credit quality since initial recognition completed with an additional backstop based on “Watchlist” and/or “forborn” assets. These assets will be subject to life-time expected loss which is higher than bucket 1 expected loss. To be noted that Dexia’s portfolio remains at high credit quality level and is mainly composed of public sector counterparts. As a consequence, the increase in provision should be relatively moderate in the order of EUR 0.2 billion.

Globally, the application of IFRS 9 will have a net positive impact of EUR 2.8 billion on Dexia own funds on 1st January 2018.

Other elements:

- As from 1st January 2017, with application on a retrospective basis, the variation of own credit risk related to liabilities designated by option at Fair Value Through P&L will be recognised directly in equity and no more in profit or loss. In case of early redemption of such liabilities, an analysis is performed to identify and explain the difference between the redemption amount and the carrying amount. The part accumulated in equity related to the change in own credit risk of a financial liability is reclassified from “gains and losses directly recognized in equity” to “consolidated reserve” and not to profit or loss. If the treatment of liabilities designated as at fair value through profit or loss would create an accounting mismatch in profit or loss, all changes in the fair value are presented in profit or loss. The impact of early application of this provision amounts to EUR 146 million (Group share) and has been directly recognised in Dexia own funds on 1st January 2017.
- Some derivatives which are hedging financial assets that will be classified at fair Value Through P&L will not be eligible as

hedging instruments contrary to the current treatment under IAS 39 and will be classified as Held for trading derivatives under IFRS 9. The volatility related to the interest risk of these assets will be offset by the change in fair value of the economic hedging derivatives but the volatility related to credit risk will remain.

#### 1.1.2.6. Changes in presentation of consolidated financial statements of Dexia

As from 1 January 2017 and as permitted by IFRS 9, Dexia early applies the treatment related to changes in the fair value attributable to own credit risk on financial liabilities designated as at fair value through profit or loss (see 1.1.2.5. and 1.1.6.3.4.). Following a change in the treatment, Dexia separately identifies the impacts in “Consolidated statement of comprehensive income” and in “Consolidated statement of changes in equity”.

The consolidated financial statements of Dexia have been prepared in accordance with the ANC (Autorité des Normes Comptables, Authority for Accounting Standards) presentation. Since 31 December 2013, they have been compliant with ANC Recommendation 2013-04 issued on 7 November 2013 “on the presentation of the consolidated financial statements of banks prepared in accordance with International Financial Reporting Standards”.

### 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;
- 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, ie 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 recognized 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 IAS 39 "Financial Instruments: Recognition and Measurement" 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.

Since 31 December 2013, the derivative instruments transacted by Dexia with clearing houses that meet the two criteria required by IAS 32 have been 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 available-for-sale bonds, 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

Management uses judgement on the criteria mentioned in the paragraphs below in determining the appropriate classification of its investments 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, 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 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.

### 1.1.6.2. Loans and advances due from banks and customers

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.

### 1.1.6.3. Financial instruments measured at fair value through profit or loss

#### 1.1.6.3.1. 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 re-measures them at fair value. All realised and unrealised gains and losses are recorded under "Net gains (losses) on finan-

cial 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".

#### 1.1.6.3.2. Liabilities held for trading

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

#### 1.1.6.3.3. 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.

#### 1.1.6.3.4. 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 Through Profit or Loss attributable to own credit risk" within "Gains and losses directly recognized in equity" ;
- the remaining amount of change in the fair value is presented in profit or loss under "Net gains (losses) on financial instruments at fair value through profit or loss".

When liabilities designated as at fair value through profit or loss are derecognized, amounts in equity relating to own credit risk are not recycled to profit or loss. Dexia 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.

#### 1.1.6.3.5. 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. Financial investments

##### 1.1.6.4.1. 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.

##### 1.1.6.4.2. 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".

#### 1.1.6.5. Impairments on financial assets

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.

##### 1.1.6.5.1. 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.

##### 1.1.6.5.2. 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 at the recalculated effective yield at the time of reclassification. Any unamortized 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.

#### 1.1.6.5.3. 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.

#### 1.1.6.5.4. 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).

#### **1.1.6.6. Accounting for early repayments and restructuring of loans**

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.

#### **1.1.6.7. Borrowings**

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 categorized into one of three fair value hierarchy levels. The following definitions used by Dexia for the hierarchy levels are in line with IFRS 13 texts:

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

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

#### 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 available for sale and valuations for disclosures) can be summarized as follows:

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

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

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

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

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

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

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

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

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

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

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

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 collateralized derivatives, where there is a daily exchange of collateral, for which the CVA / DVA is calculated based on expected changes of value over a margin period of risk.
- The market of uncollateralized derivatives, where there is a risk on the fair value of the derivative at the balance-sheet date and also on the expected change of value over the life of the derivative.

Based on projections, positive expected exposures are used for a CVA calculation and negative expected exposures are used for a DVA calculation.

For CVA/DVA calculation, the Probability of Default (PD) parameters are based on market data and market conventions. The Loss Given Default (LGD) parameters are based on market conventions or on internal statistical data taking into account observed recovery rates.

Based on the assumptions that market participants would consider when determining the fair value, Dexia uses for the

discounting an overnight rate (OIS) curve for all derivatives, regardless if they are collateralised or not.

A Funding Valuation Adjustment (FVA) takes into account the funding costs associated to its uncollateralized derivative positions. As these uncollateralised derivatives are not subject to margin calls, the bank benefits from savings in funding or bears the cost depending on the direction of their net balance sheet position, and on the market values of these derivatives.

The level of funding costs used in determining the FVA reflects the funding of the exposure related to uncollateralized derivatives at rates different from overnight rates.

Dexia 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 IFRS disclosures on fair value)

##### **Financial instruments reclassified from Trading or AFS to L&R**

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

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

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

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

##### **General principles**

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

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

##### **Interest rate part**

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

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

##### **Credit risk part**

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

#### 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 and are included in the calculation of the effective interest rate. 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.

Once an interest bearing financial asset has been written down to its estimated recoverable amount, interest income is thereafter recognised based on the interest that was used to discount the future cash flows for measuring the recoverable amount.

Interest income and expenses on derivatives are presented on a gross basis by instrument.

In January 2015, the IFRS Interpretations Committee received a request to clarify an issue relating to the impact of negative effective interest rates on the presentation of income and expenses in the statement of comprehensive income. It noted that interest resulting from a negative interest rate on financial asset does not meet the definition of interest revenue in IAS 18 "Revenue". 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

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

#### 1.1.10. HEDGING DERIVATIVES

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 recognized 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

As explained in 1.1.1.1 General, 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 available-for-sale assets or loan portfolios.

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 collaterals, 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.

#### 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 available-for-sale investments 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 benefit 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 build up the final obligation.

The amount recognised in the balance sheet is the present value of the defined benefit obligation (i.e., the present value of the expected future payments required to settle the obligation resulting from the employee service in the current and prior periods), reduced by the fair value of plan assets at the balance-sheet date. The defined obligation is presented net of plan assets as a liability or an asset. Therefore, an asset may arise where a plan has been overfunded and are recorded separately if those assets are held by a Group entity. Any asset recognised is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets (excluding net interest) and any change in the effect of the asset ceiling (excluding net interest), 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 when there is uncertainty about the creditworthiness of the counterparty.

**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 assets, liabilities, equity and net income does not exceed 1% of the total of consolidated balance sheet and net income (respectively EUR 1.81 billion and EUR 3.28 million (average on 3 years) in 2017). As at 31 December 2017, 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 2016

The companies CBX IA2 and Dexia CLF Banque transferred their assets to Dexia Crédit Local.

Dexia Delaware and Tevere Finance S.r.l were liquidated.

The Special Purpose Vehicule Sumitomo Mitsui left the scope of consolidation in 2017 following the disposal of the subordinated tranche issued by this SPV.

Following the vote of the General Meeting of 30 March 2017 of Dexia Israel, Dexia Credit Local has transferred 6.46 % of his shares to his co-shareholder ULAI (Union of Local Authorities in Israel) and now owns 58.89% of Dexia Israel (versus 65.31% of dividend distribution rights and 65.99% of voting rights at 31 December 2016), as well as effective control of the Board of Directors.

As the modification of the ownership's interest didn't lead to a loss of control of the subsidiary, the transaction has been recorded in own funds, as required by the IFRS standards : the group's consolidated reserves and the cumulative translation adjustments – group share decreased respectively by EUR 10.8 million and EUR 3.4 million and the minority interests increased by the same amount. See also note 1.5.

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

The impact of the evolution of the scope of consolidation in the consolidated income statement is not significant.

### d. Scope of the Dexia Group as at 31 December 2017

All Group entities are managed in run-off, except Dexia Israel, in order to preserve the value of its commercial franchise with a view to its disposal.

## A. Fully consolidated entities

Name	Country	31/12/2016			31/12/2017			Ref
		Method	Control rate	Interest rate	Method	Control rate	Interest rate	
PARENT COMPANY								
Dexia S.A.	Belgium							
Dexia S.A. Etablissement Stable France	France	FC	100	100	FC	100	100	
SUBSIDIARIES								
CBX.IA 2	France	FC	100	100	FC			S1
Dexia CLF Banque	France	FC	100	100	FC			S1
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 Delaware LLC	USA	FC	100	100	FC			S1
Dexia Financial Products Services LLC <sup>(3)</sup>	USA	FC	100	100	FC	100	100	
Dexia Flobail	France	FC	100	100	FC	100	100	
Dexia FP Holdings Inc <sup>(2)</sup>	USA	FC	100	100	FC	100	100	
Dexia Holdings, Inc.	USA	FC	100	100	FC	100	100	
Dexia Israel Bank Ltd	Israel	FC	65.99	65.31	FC	58.89	58.89	
Dexia Kommunalbank Deutschland AG <sup>(5)</sup>	Germany	FC	100	100	FC	100	100	
Dexia Nederland BV	Netherlands	FC	100	100	FC	100	100	
FSA Asset Management LLC <sup>(3)</sup>	USA	FC	100	100	FC	100	100	
FSA Capital Management Services LLC <sup>(3)</sup>	USA	FC	100	100	FC	100	100	
FSA Capital Markets Services LLC <sup>(3)</sup>	USA	FC	100	100	FC	100	100	
FSA Global Funding LTD <sup>(2)</sup>	Cayman Islands	FC	100	100	FC	100	100	
FSA Portfolio Asset Limited (UK) <sup>(3)</sup>	UK	FC	100	100	FC	100	100	
Premier International Funding Co <sup>(4)</sup>	Cayman Islands	FC	0	0	FC	0	0	
Sumitomo Mitsui SPV	Japan	FC	100	100				S3
Tevere Finance S.r.l <sup>(1)</sup>	Italy	FC	100	70				S1
White Rock Insurance (Gibraltar) PCC Limited, CELL DSA - SPV	Gibraltar	FC	100	100	FC	100	100	
WISE 2006-1 PLC	Ireland	FC	100	100	FC	100	100	

(1) Companies consolidated by Dexia Crediop.

(2) Companies consolidated by Dexia Holdings Inc.

(3) Companies consolidated by Dexia FP Holdings Inc.

(4) Companies consolidated by FSA Global Funding Ltd.

(5) Legal form has been changed in GmbH on 16 March 2018.

**Méthod  
Ref**FC: Fully Consolidated  
Out of scope

S1: Cessation of activity (including dissolution, liquidation)

S2: Company deconsolidated since become below the thresholds

S3: Cession

## B. Non fully consolidated subsidiaries and associated companies not accounted for by the equity method

Name	Country	31/12/2016			31/12/2017			Ref
		Method	Control rate	Interest rate	Method	Control rate	Interest rate	
DCL Evolution	France	not FC	100	100	not FC	100	100	
Dexia Certificaten Nederland BV	The Netherlands	not FC	100	100	not FC	100	100	
Dexia Crediop Ireland	Ireland	FC	100	70	not FC	100	70	S2
Dexia Crédito Local México SA de CV (Sofom Filial)	Mexico	not FC	100	100	not FC	100	100	
Dexia Kommunalkredit Adriatic	Croatia	not FC	100	100				S1
Dexia Kommunalkredit Hungary	Hungary	not FC	100	100				S1
Dexia Kommunalkredit Romania	Roumania	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	
La Cité	France	not EM	25.50	25.50				S3
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 : Cession

**Méthod** FC : Fully Consolidated

not FC : not Fully Consolidated

not EM : not accounted for by the Equity Method

## C. Other significant companies held by the Group

Nil

### Nature of the risks associated with an entity's interests in consolidated structured entities

As part of the sale of FSA to Assured Guaranty, Dexia retained the Financial Products activity and, generally, agreed to indemnify FSA and Assured Guaranty for any losses they may suffer in relation to that activity. The Financial Products activity includes the Global Funding business which includes a portion of the assets and liabilities of FSA Global Funding and of Premier International Funding Co.

Dexia 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 resulting 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 his 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"<sup>(1)</sup>

Some restrictions concern structured entities. They take the form of segregation of assets in order to satisfy the obligations of the issuer to the noteholders as well as requirement of agreement from the insurer or the guarantor.

Pursuant to the European Commission Decision of 28 December 2012, there is a general ban on the payment of any form of dividend by any subsidiary controlled directly or indirectly by Dexia, in particular when such a payment would entail mandatory payment of a coupon on Tier 1 hybrid instruments or Tier 2 instruments held by persons other than Dexia and its subsidiaries.

Regulated entities are required to comply with regulatory requirements applicable to them.

Furthermore, some regulators limit the ability of a subsidiary or branch under their supervision, to finance the parent company above a certain threshold.

#### f. Interest in unconsolidated structured entities

This is mainly a securitisation vehicle (FCC) of loans to customer. This vehicle is financed through the issuance of notes.

<sup>(1)</sup> 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.

Interests in unconsolidated structured entities (in EUR million)	Securitisation Special Purpose Entities	Other activities	Total
Derivatives	191		191
Debt securities	250		250
Loans and advances		17	17
<b>TOTAL</b>	<b>441</b>	<b>17</b>	<b>458</b>
<b>Total assets of unconsolidated structured entities</b>	<b>750</b>	<b>17</b>	<b>767</b>

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 2017.

### 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 than 5% of total assets.

Dexia Crediop s.p.a	31/12/2016	31/12/2017
Percentage of ownership held by minority interests	30%	30%
Principle place of business	Italy	Italy
Accumulated minority interests (in EUR million)	284	282
Profit or loss allocated to minority interests (in EUR million)	(5)	(1)
Dividend paid to minority interests	0	0
Assets (in EUR million)	23,404	20,531
Liabilities (in EUR million)	22,459	19,590
Equity (in EUR million)	945	941
Net banking income (in EUR million)	70	36
Profit or loss (in EUR million)	(17)	(3)
Total comprehensive income (in EUR million)	(33)	(4)

## 1.3 Significant items included in the statement of income

Over the year 2017, Dexia posted a net result Group share of EUR - 462 million.

During this year, the worsening of the financial situation of the Commonwealth of Puerto Rico led to the recognition of a global charge of EUR - 112 million presented in the following items of the statement of income:

- in *Cost of risk* for an amount of EUR -58 million following the losses net of reversals of provisions on the positions disposed together with the increase of provisioning on the residual exposures to Puerto Rico;
- in *Net gains or losses on financial instruments at fair value through profit or loss* for EUR -54 million for the recycling in result of the cash flow hedge reserve associated to the funding at floating rate of the position sold.

The *Net gains and losses on financial instruments at fair value*, at EUR -84 million included also a positive amount of EUR + 28 million for the evolution of the valuation of collateralized derivatives on the basis of an OIS curve, of the counterparty risk on derivatives (Credit Valuation Adjustment et Debit Valuation Adjustment) and of the bid ask reserve on derivatives. In 2016, this impact amounted to EUR + 258 million. Moreover, a Funding Value Adjustment (FVA) aiming measuring the funding costs associated with non-collateralized derivatives led to the recognition of a positive amount of EUR + 40 million. In 2016, the amount was negative for EUR - 57 million. In this item was also recorded a positive result of EUR + 10 million as compensation related to the payment of negative interests while the contracts or the current legislation in force, allowed not to pay them. In 2016, those compensations amounted to EUR + 144 million.

Furthermore, the disposal of Negative Basis Trade and the settlement of credit default swap led to the recognition of a charge of EUR -29 million.

The *Net gains and losses on financial assets available for sale* amounted to EUR -162 million. In the framework of the disposal programme of assets, during the fourth quarter of 2017, a portfolio of Spanish covered bonds (EUR 1.3 billion) and a portfolio of loans on the French local public sector (EUR 604 million) were sold with a negative net result including the breakdown of hedging swaps for EUR -122 million. The item also included a loss of EUR -23 million on the loans of the Special Purpose Entity Sumitomo, leaving the Group's assets following the deconsolidation of this SPE.

In 2017, the weight of the banking taxes and regulatory contributions in the Operating expenses was EUR -89 million. In 2016, it amounted to EUR -113 million, in which was included an extraordinary contribution of EUR -25 million to the Italian Resolution Fund.

The tax rates used for the computation of the Group's deferred taxes have been adapted as at 31 December 2017 to take into account the evolution of the tax rules in various countries. This didn't have any impact on the result of the Dexia group as the group has a position of unrecognized deferred tax assets, due to the losses realised following the resolution of its activities : the modification of the tax rates led to the decrease of the basis of deferred tax assets which are unrecognised, without any effect on the result of the period, nor on the gains and losses directly recognised in own funds.

## 1.4. Other significant event of the year

On 4 October 2017, Dexia signed an agreement with Cognizant for 10 years, making Cognizant Dexia's strategic partner for IT and the management of operational processes on back office markets and credit activities in France and Belgium.

Under the terms of this agreement, Dexia staff members in charge of IT and back office activities join a dedicated company, newly created in France by Cognizant. To allow for a smooth transition, implementation of the agreement is in two phases. IT services were transferred on 1 November 2017 and back-offices will join Cognizant in May 2018.

All in all, approximately 150 Dexia staff members will join the new entity, Cognizant Horizon.

As IT activities were transferred on 1st November, the decrease of staff expenses as well as the increase of consulting expenses is of little significance for the year 2017. However, the impact will be more important for the year 2018 as it will concern a full year for the IT activities and a six-months period for the back office activities.



1.5. Post-balance-sheet events

On 17 March 2018, Dexia successfully agreed on an off-market transaction with a series of qualified investors, involving the sale of its 58.9 % participation in Dexia Israel Bank (Dexia Israel). The sale is made at a price of NIS 674 per share and the total consideration amounts to approximately EUR 82 million.

The impact of the sale, considered to be non-material, will be recorded in the group's 1Q 2018 consolidated financial statements.

## 2. Notes on the assets

(some amounts may not add up due to roundings off)

2.0. Cash and central banks (Item I)	97	2.8. Tangible fixed assets (Item XV)	101
2.1. Financial assets at fair value through profit or loss (Item II)	97	2.9. Intangible assets (Item XVI)	102
2.2. Financial assets available for sale (Item IV)	98	2.10. Leases	102
2.3. Interbank loans and advances (Item V)	99	2.11. Quality of financial assets	103
2.4. Customer loans and advances (Item VI)	99	2.12. Reclassification of financial assets (IAS 39 amended) and transfers of available for sale financial assets to held to maturity financial assets	104
2.5. Financial assets held to maturity (Item VIII)	100	2.13. Transfer of financial assets	105
2.6. Tax assets (Items IX and X)	100		
2.7. Accruals and other assets (Item XI)	100		

### 2.0. Cash and central banks (Item I - Assets)

(in EUR million)	31/12/16	31/12/17
Mandatory reserve deposits with central banks	293	61
Other central banks deposits <sup>(1)</sup>	3,929	10,659
<b>TOTAL</b>	<b>4,223</b>	<b>10,721</b>
<i>of which included in cash and cash equivalents</i>	<i>4,223</i>	<i>10,721</i>

(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.

### 2.1. Financial assets at fair value through profit or loss (Item II - Assets)

This line includes both the portfolio held for trading and all financial assets at fair value through profit or loss (see point regarding "Financial assets at fair value through profit or loss" in note 1.1 "Accounting policies and valuation methods").

(in EUR million)	31/12/16	31/12/17
Loans and securities <sup>(1)</sup>	1,366	680
Derivatives (see note 4.1.b)	16,415	12,509
<b>TOTAL</b>	<b>17,781</b>	<b>13,188</b>

(1) Securities were sold in 2017.

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

(in EUR million)	31/12/16			31/12/17		
	Held for trading	Designated at fair value	Total	Held for trading	Designated at fair value	Total
Banks	0	0	0	0	0	0
Other	1,365	1	1,366	679	1	680
<b>TOTAL</b>	<b>1,365</b>	<b>1</b>	<b>1,366</b>	<b>679</b>	<b>1</b>	<b>680</b>

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

(in EUR million)	31/12/16			31/12/17		
	Held for trading	Designated at fair value	Total	Held for trading	Designated at fair value	Total
Other bonds and fixed-income instruments	1,365	0	1,365	679	0	679
Equities and other variable-income instruments	0	1	1	0	1	1
<b>TOTAL</b>	<b>1,365</b>	<b>1</b>	<b>1,366</b>	<b>679</b>	<b>1</b>	<b>680</b>

**c. Analysis by maturity and interest rate**

See notes 7.6 and 7.4

**d. Analysis of the fair value**

See note 7.1

**e. Reclassification of financial assets (IAS39 amended)**

See note 2.12.A.

**2.2. Financial assets available for sale (Item IV - Assets)****a. Analysis by counterparty**

(in EUR million)	31/12/16	31/12/17
Public sector	9,238	7,228
Banks	3,957	1,830
Other	3,329	1,737
<b>Performing assets</b>	<b>16,524</b>	<b>10,795</b>
Impaired equities and other variable-income instruments	88	76
<b>Impaired assets</b>	<b>88</b>	<b>76</b>
<b>TOTAL ASSETS BEFORE IMPAIRMENT</b>	<b>16,611</b>	<b>10,870</b>
Specific impairment	(43)	(40)
<b>TOTAL ASSETS AFTER IMPAIRMENT</b>	<b>16,568</b>	<b>10,830</b>

**b. Analysis by nature**

(in EUR million)	31/12/16	31/12/17
Bonds issued by public bodies	7,142	6,227
Other bonds and fixed-income instruments	9,216	4,415
Equities and other variable-income instruments	253	228
<b>TOTAL ASSETS BEFORE IMPAIRMENT</b>	<b>16,611</b>	<b>10,870</b>
Specific impairment	(43)	(40)
<b>TOTAL ASSETS AFTER IMPAIRMENT</b>	<b>16,568</b>	<b>10,830</b>

**c. Convertible bonds included in the available for sale portfolio (positions higher than EUR 50 million)**

Nil.

**d. Analysis by maturity and interest rate**

See notes 7.6. and 7.4.

**e. Analysis of fair value**

See note 7.1.

**f. Analysis of quality**

See note 2.11.

**g. Reclassification (IAS39 amended) and transfer to financial assets held to maturity**

See note 2.12.

## 2.3. Interbank loans and advances (Item V - Assets)

### a. Analysis by nature

(in EUR million)	31/12/16	31/12/17
Nostri accounts	743	350
Reverse repurchase agreements ( <i>reverse repos</i> )	2,939	2,980
Other interbank loans and advances	1,243	931
Debt instruments	2,615	1,901
<b>Performing assets</b>	<b>7,540</b>	<b>6,162</b>
<b>Impaired assets</b>	<b>0</b>	<b>0</b>
<b>TOTAL ASSETS BEFORE IMPAIRMENT</b>	<b>7,540</b>	<b>6,162</b>
Collective impairment	(37)	(18)
<b>TOTAL ASSETS AFTER IMPAIRMENT</b>	<b>7,503</b>	<b>6,144</b>
<i>of which included in cash and cash equivalents</i>	<i>1,556</i>	<i>444</i>

### 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 2.11.

### e. Reclassification of financial assets (IAS39 amended)

See note 2.12.A.

## 2.4. Customer loans and advances (Item VI - Assets)

### a. Analysis by counterparty

(in EUR million)	31/12/16	31/12/17
Public sector	77,651	67,919
Other	41,191	31,037
<b>Performing assets</b>	<b>118,842</b>	<b>98,956</b>
Impaired loans and advances	856	694
Impaired debt instruments	208	183
<b>Impaired assets</b>	<b>1,064</b>	<b>877</b>
<b>TOTAL ASSETS BEFORE IMPAIRMENT</b>	<b>119,906</b>	<b>99,833</b>
Specific impairment	(321)	(257)
Collective impairment	(379)	(312)
<b>TOTAL ASSETS AFTER IMPAIRMENT</b>	<b>119,206</b>	<b>99,264</b>
<i>of which included in finance leases</i>	<i>1,318</i>	<i>1,242</i>

### b. Analysis by nature

(in EUR million)	31/12/16	31/12/17
Loans and advances	68,333	57,745
Debt instruments	50,509	41,212
<b>Performing assets</b>	<b>118,842</b>	<b>98,956</b>
Impaired loans and advances	856	694
Impaired debt instruments	208	183
<b>Impaired assets</b>	<b>1,064</b>	<b>877</b>
<b>TOTAL ASSETS BEFORE IMPAIRMENT</b>	<b>119,906</b>	<b>99,833</b>
Specific impairment	(321)	(257)
Collective impairment	(379)	(312)
<b>TOTAL ASSETS AFTER IMPAIRMENT</b>	<b>119,206</b>	<b>99,264</b>
<i>of which included in finance leases</i>	<i>1,318</i>	<i>1,242</i>

### c. Analysis by maturity and interest rate

See notes 7.6 and 7.4.

**d. Analysis of fair value**

See note 7.1.

**e. Analysis of quality**

See note 2.11.

**f. Reclassification of financial assets (IAS39 amended)**

See note 2.12.A.

**2.5. Financial assets held to maturity (Item VIII - Assets)****a. Analysis by counterparty**

(in EUR million)	31/12/16	31/12/17
Public sector	1,911	1,750
Other	7	0
<b>Performing assets</b>	<b>1,918</b>	<b>1,750</b>
<b>Impaired assets</b>	<b>0</b>	<b>0</b>
<b>TOTAL ASSETS BEFORE IMPAIRMENT</b>	<b>1,918</b>	<b>1,750</b>
Specific impairment	0	0
Collective impairment	0	0
<b>TOTAL ASSETS AFTER IMPAIRMENT</b>	<b>1,918</b>	<b>1,750</b>

**b. Analysis by nature**

(in EUR million)	31/12/16	31/12/17
Bonds issued by public bodies	1,911	1,750
Other bonds and fixed-income instruments	7	0
<b>TOTAL ASSETS BEFORE IMPAIRMENT</b>	<b>1,918</b>	<b>1,750</b>
<b>TOTAL ASSETS AFTER IMPAIRMENT</b>	<b>1,918</b>	<b>1,750</b>

**c. Analysis by maturity and interest rate**

See notes 7.6 and 7.4.

**d. Analysis of fair value**

See note 7.1.

**e. Analysis of quality**

See note 2.11.

**f. Impact analysis on transfer of financial assets from available for sale to held-to-maturity**

See note 2.12.B.

**2.6. Tax assets (Items IX and X - Assets)**

(in EUR million)	31/12/16	31/12/17
Current tax assets	29	19
Deferred tax assets (see note 4.2)	32	29

**2.7. Accruals and other assets (Item XI - Assets)**

(in EUR million)	31/12/16	31/12/17
Other assets	252	561
Cash collateral	36,632	29,989
<b>TOTAL</b>	<b>36,884</b>	<b>30,550</b>

**Other assets**

Analysis by nature (in EUR million)	31/12/16	31/12/17
Deferred expense	9	6
Other accounts receivable	236	552
Other taxes	6	3
<b>Performing assets</b>	<b>251</b>	<b>561</b>
<b>Impaired assets</b>	<b>2</b>	<b>1</b>
<b>TOTAL ASSETS BEFORE IMPAIRMENT</b>	<b>253</b>	<b>562</b>
Specific impairment	(2)	(1)
<b>TOTAL ASSETS AFTER IMPAIRMENT</b>	<b>252</b>	<b>561</b>

## 2.8. Tangible fixed assets (Item XV - Assets)

### a. Net book value

	Land and building	Office furniture and other equipment	Total
(in EUR million)	Own use owner	Own use owner	
<b>Acquisition cost as at 1 Jan. 2016</b>	<b>348</b>	<b>59</b>	<b>406</b>
- Acquisitions	0	1	1
- Disposals <sup>(1)</sup>	(329)	(3)	(332)
- Transfers and cancellations	0	(5)	(5)
- Translation adjustments	0	1	1
<b>Acquisition cost as at 31 Dec. 2016 (A)</b>	<b>19</b>	<b>53</b>	<b>72</b>
<b>Accumulated depreciation and impairment as at 1 Jan. 2016</b>	<b>(66)</b>	<b>(48)</b>	<b>(114)</b>
- Depreciation booked	0	(3)	(4)
- Disposals <sup>(1)</sup>	53	3	56
- Transfers and cancellations	0	5	5
- Translation adjustments	0	(1)	(1)
<b>Accumulated depreciation and impairment as at 31 Dec. 2016 (B)</b>	<b>(13)</b>	<b>(45)</b>	<b>(57)</b>
<b>Net book value as at 31 Dec. 2016 (A)+(B)</b>	<b>6</b>	<b>9</b>	<b>15</b>

(1) Sale of CBX Tower in "La Défense"

	Land and building	Office furniture and other equipment	Total
(in EUR million)	Own use owner	Own use owner	
<b>Acquisition cost as at 1 Jan. 2017</b>	<b>19</b>	<b>53</b>	<b>72</b>
- Acquisitions	0	1	1
- Disposals	0	(3)	(3)
- Transfers and cancellations	(5)	(10)	(15)
- Translation adjustments	0	(2)	(3)
<b>Acquisition cost as at 31 Dec. 2017 (A)</b>	<b>14</b>	<b>39</b>	<b>52</b>
<b>Accumulated depreciation and impairment as at 1 Jan. 2017</b>	<b>(13)</b>	<b>(45)</b>	<b>(57)</b>
- Depreciation booked	0	(3)	(3)
- Disposals	0	1	1
- Transfers and cancellations	1	8	9
- Translation adjustments	0	2	2
<b>Accumulated depreciation and impairment as at 31 Dec. 2017 (B)</b>	<b>(12)</b>	<b>(37)</b>	<b>(48)</b>
<b>Net book value as at 31 Dec. 2016 (A)+(B)</b>	<b>2</b>	<b>2</b>	<b>4</b>

### b. Fair value of investment property

Nil.

### c. Capitalised expenditures for the construction of tangible fixed assets

Nil.

### d. Contractual obligations relating to investment property at the end of the period

Nil.

### e. Contractual obligations relating to property, plant and equipment at the end of the period

Nil.



## 2.9. Intangible assets (Item XVI - Assets)

	2016			2017		
	Internally developed software	Other intangible assets <sup>(1)</sup>	Total	Internally developed software	Other intangible assets <sup>(1)</sup>	Total
(in EUR million)						
<b>Acquisition cost as at 1st January</b>	<b>91</b>	<b>113</b>	<b>204</b>	<b>104</b>	<b>118</b>	<b>222</b>
- Acquisitions	13	5	18	11	3	14
- Disposals	0	0	0	0	(2)	(2)
- Transfers and cancellations	0	0	0	(1)	(8)	(9)
- Translation adjustments	0	1	1	0	(3)	(3)
<b>Acquisition cost as at 31 December (A)</b>	<b>104</b>	<b>118</b>	<b>222</b>	<b>114</b>	<b>110</b>	<b>224</b>
<b>Accumulated depreciation and impairment as at 1st January</b>	<b>(74)</b>	<b>(103)</b>	<b>(178)</b>	<b>(81)</b>	<b>(110)</b>	<b>(190)</b>
- Booked	(7)	(6)	(13)	(7)	(4)	(11)
- Disposals					2	2
- Transfers and cancellations				1	8	9
- Translation adjustments	0	(1)	(1)	0	2	2
<b>Accumulated depreciation and impairment as at 31 December (B)</b>	<b>(81)</b>	<b>(110)</b>	<b>(190)</b>	<b>(87)</b>	<b>(102)</b>	<b>(189)</b>
<b>Net book value as at 31 December (A)+(B)</b>	<b>23</b>	<b>9</b>	<b>32</b>	<b>27</b>	<b>8</b>	<b>35</b>

(1) Other intangible assets include primarily purchased software.

## 2.10. Leases

### a. Group as lessor

#### Finance leases

Gross investment in finance leases (in EUR million)	31/12/16	31/12/17
Less than 1 year	81	136
1 year to 5 years	361	320
Over 5 years	873	784
<b>Subtotal</b>	<b>1,316</b>	<b>1,240</b>
<b>Net investment in finance leases</b>	<b>1,316</b>	<b>1,240</b>

Additional information (in EUR million)	31/12/16	31/12/17
Estimated fair value of finance leases	1,316	1,236

#### Operating leases

Nil.

### b. Group as lessee

#### Finance leases

Nil.

## Operating leases

Future net minimum lease payments under non-cancellable operating leases (in EUR million)	31/12/16	31/12/17
Less than 1 year	20	19
1 year to 5 years	65	55
<b>TOTAL</b>	<b>85</b>	<b>74</b>
Future minimum sublease payments expected to be received under non-cancelable subleases at the balance sheet date	1	0

Lease and sublease payments recognized as expenses during the year (in EUR million)	31/12/16	31/12/17
Minimum lease payments <sup>(1)</sup>	14	19
Contingent lease payments	1	0
Sublease payments	(1)	(1)
<b>TOTAL</b>	<b>14</b>	<b>18</b>

(1) The figures as at 31/12/2016 have been restated.

## 2.11. Quality of financial assets

(in EUR million)	31/12/16	31/12/17
<b>Analysis of performing financial assets</b>		
Interbank loans and advances	7,541	6,162
Customer loans and advances	118,842	98,957
Financial assets held to maturity	1,918	1,750
Financial assets available for sale	16,523	10,795
Fixed revenue instruments	16,358	10,642
Variable revenue instruments	165	152
Other accounts receivable (note 2.7)	236	552
<b>TOTAL PERFORMING FINANCIAL ASSETS</b>	<b>145,060</b>	<b>118,216</b>
Collective impairment	(416)	(331)
<b>NET TOTAL PERFORMING FINANCIAL ASSETS</b>	<b>144,644</b>	<b>117,885</b>

(in EUR million)	Gross amount		Specific Impairment		Net amount	
	31/12/16	31/12/17	31/12/16	31/12/17	31/12/16	31/12/17
<b>Analysis of impaired financial assets</b>						
Customer loans and advances	1,064	877	(321)	(257)	743	620
Financial assets available for sale	88	76	(43)	(40)	45	36
Fixed revenue instruments	0	0	0	0	0	0
Variable revenue instruments	88	76	(43)	(40)	45	36
Other accounts receivable (note 2.7)	2	1	(2)	(1)	0	0
<b>TOTAL</b>	<b>1,154</b>	<b>954</b>	<b>(366)</b>	<b>(298)</b>	<b>788</b>	<b>656</b>
<b>Analysis of performing and impaired financial assets</b>						
Interbank loans and advances	7,541	6,162	0	0	7,541	6,162
Customer loans and advances	119,905	99,834	(321)	(257)	119,584	99,577
Financial assets held to maturity	1,918	1,750	0	0	1,918	1,750
Financial assets available for sale	16,611	10,871	(43)	(40)	16,568	10,830
Fixed revenue instruments	16,358	10,642	0	0	16,358	10,642
Variable revenue instruments	253	228	(43)	(40)	210	188
Other accounts receivable (note 2.7)	238	553	(2)	(1)	236	552
<b>TOTAL FINANCIAL ASSETS</b>	<b>146,213</b>	<b>119,170</b>	<b>(366)</b>	<b>(298)</b>	<b>145,847</b>	<b>118,871</b>
Collective impairment					(416)	(331)
<b>NET TOTAL</b>	<b>146,213</b>	<b>119,170</b>	<b>(366)</b>	<b>(298)</b>	<b>145,432</b>	<b>118,540</b>

## 2.12. 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".

31/12/16						
	Carrying amount of assets reclassified, at the reclassification date	Carrying amount of reclassified assets at 31 December 2016	Fair value of reclassified assets at 31 December 2016	Amount not taken through profit or loss due to reclassification	Amount not taken through AFS Reserve due to reclassification	Premium/ Discount amortisation through net income
(in EUR million)						
From "Financial assets held for trading" to "Loans and advances"	3,565	1,126	1,071	(55)		2
From "Financial assets available for sale" to "Loans and advances"	65,013	45,083	40,948		(4,135)	188

31/12/17						
	Carrying amount of assets reclassified, at the reclassification date	Carrying amount of reclassified assets at 31 December 2017	Fair value of reclassified assets at 31 December 2017	Amount not taken through profit or loss due to reclassification	Amount not taken through AFS reserve due to reclassification	Premium/ Discount amortisation through net income
(in EUR million)						
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

### 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 and in 2016, 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 (an income of EUR 18 million in 2016).

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 (EUR 2 million in 2016).

## 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 reclassification 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" (EUR - 42 million as of 31 December 2016).

An EUR 652 million gross amount of available for sale reserve was frozen and will be amortised on the residual maturity of the assets, without any impact in profit and loss. Indeed, the amortisation of the premium/discount on the asset is offset by the symmetrical amortisation of the fair value reserve frozen at the time of reclassification. As at 31 December 2017, this amortisation amounted to EUR 34 million (EUR 2 million as of 31 December 2016).

31/12/16					
(in EUR million)	Carrying amount of assets transferred, at the reclassification date	Carrying amount of transferred assets at 31 December 2016	Fair value of transferred assets at 31 December 2016	Amount not taken through AFS reserve due to transfer	Amortisation of premium/discount in gains and losses directly recognised in equity
	1,696	1,699	1,657	(42)	2

31/12/17					
(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

## 2.13. 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)	31/12/16		31/12/17	
	Carrying amount of assets	Carrying amount of associated liabilities	Carrying amount of assets	Carrying amount of associated liabilities
<b>Loans and advances not derecognised due to following transactions:</b>				
Repurchase agreements	19,258	18,206	18,286	16,236
<b>TOTAL</b>	<b>19,258</b>	<b>18,206</b>	<b>18,286</b>	<b>16,236</b>
<b>Financial assets available for sale not derecognised due to following transactions:</b>				
Repurchase agreements	11,252	11,119	9,792	9,355
<b>TOTAL</b>	<b>11,252</b>	<b>11,119</b>	<b>9,792</b>	<b>9,355</b>
<b>TOTAL</b>	<b>30,510</b>	<b>29,325</b>	<b>28,078</b>	<b>25,591</b>

### 3. Notes on the liabilities

(some amounts may not add up due to roundings off)

3.0. Central banks (Item I)	106	3.5. Tax liabilities (Items VIII and IX)	108
3.1. Financial liabilities at fair value through profit or loss (Item II)	106	3.6. Accruals and other liabilities (Item X)	108
3.2. Interbank borrowings and deposits (Item IV)	107	3.7. Provisions (Item XIII)	108
3.3. Customer borrowings and deposits (Item V)	107	3.8. Subordinated debt (Item XIV)	110
3.4. Debt securities (Item VI)	107	3.9. Information on Equity	110

#### 3.0. Central banks (Item I - Liabilities)

(in EUR million)	31/12/2016	31/12/2017
Central banks <sup>(1)</sup>	690	0
<b>TOTAL</b>	<b>690</b>	<b>0</b>

(1) As the situation of the Group has improved, the use of refinancing facilities from Central Banks was no longer necessary and this more expensive source of financing was therefore no longer used.

#### 3.1. Financial liabilities at fair value through profit or loss (Item II - Liabilities)

(in EUR million)	31/12/2016	31/12/2017
Liabilities designated at fair value	1,798	1,410
Derivatives (see note 4.1)	16,878	12,782
<b>TOTAL</b>	<b>18,676</b>	<b>14,193</b>

##### a. Analysis by nature of liabilities held for trading

Nil.

##### b. Analysis by nature of liabilities designated at fair value

(in EUR million)	31/12/2016	31/12/2017
Non subordinated liabilities	1,798	1,410
<b>TOTAL</b>	<b>1,798</b>	<b>1,410</b>

##### c. Analysis by maturity and interest rate

See notes 7.4 and 7.6.

##### d. Analysis of fair value

See note 7.1 and 7.2.h for the own credit risk.

The "Fair Value Option" (FVO), for financial liabilities is mainly used in the following situation:

By Dexia Financial Products Inc and FSA Global Funding Ltd for liabilities where the hedge accounting requirements are not met or there is a risk that they will not be met, the FVO is used as an alternative in order to reduce volatility in profit or loss. The following types of liabilities are subject to the FVO classification:

a) Fixed rate liabilities that are highly customised funding contracts tailored to the specific needs of the investor (GIC activities).

Regarding collateralised liabilities by assets, the DVA spread is the average of spreads of collateral given as guarantee. Regarding non secured liabilities, they benefit from both Dexia and 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.

The own credit spread is Dexia's DVA spread.

As at 31 December 2017, the cumulative change in fair value attributable to own credit risk of financial liabilities designated at fair value amounted to EUR -81 million. This amount is booked in Gains and losses directly recognised in equity.

## 3.2. Interbank borrowings and deposits (Item IV - Liabilities)

### a. Analysis by nature

(in EUR million)	31/12/2016	31/12/2017
Demand deposits	21	88
Repurchase agreements	30,647	24,568
Other debts	9,570	6,360
<b>TOTAL</b>	<b>40,238</b>	<b>31,016</b>

### b. Analysis by maturity and interest rate

See notes 7.4 and 7.6.

### c. Analysis of fair value

See note 7.1.

## 3.3. Customer borrowings and deposits (Item V - Liabilities)

### a. Analysis by nature

(in EUR million)	31/12/2016	31/12/2017
Demand deposits	1,955	795
Term deposits	4,807	1,186
<b>Total customer deposits</b>	<b>6,762</b>	<b>1,981</b>
Repurchase agreements	2,614	3,781
Other borrowings	1,402	642
<b>Total customer borrowings</b>	<b>4,016</b>	<b>4,423</b>
<b>TOTAL</b>	<b>10,778</b>	<b>6,404</b>

### b. Analysis by maturity and interest rate

See notes 7.4 and 7.6.

### c. Analysis of fair value

See note 7.1.

## 3.4. Debt securities (Item VI - Liabilities)

### a. Analysis by nature

(in EUR million)	31/12/2016	31/12/2017
Certificates of deposit	13,609	10,085
Guaranty's non-convertible bonds <sup>(1)</sup>	84,915	79,569
<b>TOTAL <sup>(2)</sup></b>	<b>98,524</b>	<b>89,654</b>

(1) As at 31 December 2017, the amount of covered bonds was EUR 15.4 billion (EUR 17.6 billion in 2016). See note 7.3. Collateral.

(2) As at 31 December 2017, the total amount issued with the State guarantee was EUR 67.6 billion (EUR 71.4 billion in 2016).

### b. Analysis by maturity and interest rate

See notes 7.4 and 7.6.

### c. Analysis of fair value

See note 7.1.



### 3.5. Tax liabilities (Items VIII and IX - Liabilities)

(in EUR million)	31/12/2016	31/12/2017
Current tax liabilities	7	1
Deferred tax liabilities (see note 4.2)	28	0

### 3.6. Accruals and other liabilities (Item X - Liabilities)

(in EUR million)	31/12/2016	31/12/2017
Other liabilities	479	417
Cash collateral	3,966	3,524
<b>TOTAL</b>	<b>4,446</b>	<b>3,941</b>

#### Other liabilities

(in EUR million)	31/12/2016	31/12/2017
Accrued costs	28	42
Deferred income	24	10
Grants	64	58
Salaries and social charges (payable)	11	8
Liabilities related to dividends	4	4
Other taxes	15	19
Other accounts payable and other liabilities	334	277
<b>TOTAL</b>	<b>479</b>	<b>417</b>

### 3.7. Provisions (Item XIII - Liabilities)

#### a. Analysis by nature

(in EUR million)	31/12/2016	31/12/2017
Litigation claims <sup>(1)</sup>	385	328
Restructuring	24	34
Defined benefit plans	10	4
Other long-term employee benefits	5	4
Provision for off-balance sheet credit commitments	4	1
Onerous contracts	2	1
<b>TOTAL</b>	<b>432</b>	<b>374</b>

(1) This item includes a provision related to desensitisation of structured credits in France.

**b. Movements**

	Litigation claims <sup>(1)</sup>	Restructuring	Pensions and other employee benefits	Provision for off-balance sheet credit commitments	Onerous contracts	Total
(in EUR million)						
<b>AS AT 01/01/2016</b>	<b>329</b>	<b>27</b>	<b>11</b>	<b>6</b>	<b>3</b>	<b>376</b>
Additions	151	3	5	1	0	162
Unused amounts reversed	(104)	(4)	(2)	(3)	0	(113)
Amounts utilized during the year	0	(2)	(3)	0	(1)	(6)
Actuarial gains and losses	0	0	3	0	0	3
Other transfers	9	0	0	0	0	9
Translation adjustment	(1)	0	0	0	0	0
<b>AS AT 31/12/2016</b>	<b>385</b>	<b>24</b>	<b>15</b>	<b>4</b>	<b>2</b>	<b>432</b>

(1) We refer to the section *Litigation* in the chapter *Risk Management* of the *Management Report*.

	Litigation claims <sup>(1)</sup>	Restructuring	Pensions and other employee benefits	Provision for off-balance sheet credit commitments	Onerous contracts	Total
(in EUR million)						
<b>AS AT 01/01/2017</b>	<b>385</b>	<b>24</b>	<b>15</b>	<b>4</b>	<b>2</b>	<b>432</b>
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)
<b>AS AT 31/12/2017</b>	<b>328</b>	<b>34</b>	<b>8</b>	<b>1</b>	<b>1</b>	<b>374</b>

(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 100 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 8 million as at 31 December 2017 and 15 million as at 31 December 2016.

**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 guaranteed, those plans qualify as Defined Benefit plans.

### 3.8. Subordinated debt (Item XIV - Liabilities)

#### a. Analysis by nature

##### Convertible subordinated debt

Nil.

##### Non-convertible subordinated debts

(in EUR million)	31/12/2016	31/12/2017
Perpetual subordinated notes	0	0
Other subordinated notes	482	160
<b>TOTAL</b>	<b>482</b>	<b>160</b>

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 82 48.

#### b. Reconciliation of liabilities arising from financing activities

(in EUR million)	Cash flows	Non-cash changes			
		Translation adjustment	Fair value changes	Other changes	
<b>01/01/2016</b>					<b>31/12/2016</b>
<b>492</b>	<b>(5)</b>	<b>(2)</b>	<b>(2)</b>	<b>(1)</b>	<b>482</b>

(in EUR million)	Cash flows	Non-cash changes			
		Translation adjustment	Fair value changes	Other changes <sup>(1)</sup>	
<b>01/01/2017</b>					<b>31/12/2017</b>
<b>482</b>	<b>(282)</b>	<b>(4)</b>	<b>(1)</b>	<b>(35)</b>	<b>160</b>

(1) of which EUR 38 million have been transferred in "XI. Liabilities included in disposal groups held for sale"

#### c. Analysis by maturity and interest rate

See notes 7.4. and 7.6.

#### d. Analysis of fair value

See note 7.1.

#### 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 2017 opening equity

As permitted by IFRS9, since 1st January 2017, Dexia recognises the own credit risk of its debts at fair value in the gains and losses directly recognised in equity. The stock of own credit risk at 31 December 2016 (USD - 155 million) was therefore transferred into gains and losses directly recognised in equity.

#### d. Other movements

Following the vote of Dexia Israel shareholders' meeting of 30 March 2017, Dexia Credit Local transferred 6.46% of its shares to its co-shareholder ULAI (Union of Local Authorities in Israel) and now holds 58.89% of Dexia Israel. Considering that the change of ownership does not result in a loss of control of the subsidiary, the transaction has been recorded in shareholders' equity, in accordance with IFRS: Consolidated reserves- Group share and Translation adjustments - Group share decrease by EUR 10.8 million and by EUR 3.4 million, respectively, in favor of minority interests.

### 3.9 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 converted 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, on the occasion of Dexia's liquidation.

## 4. Other Notes on the balance sheet

(some amounts may not add up due to roundings off)

4.1. Derivatives	111	4.6. Share-based payments	117
4.2. Deferred taxes	112	4.7. Capital stock	118
4.3. Offsetting financial assets and financial liabilities	113	4.8. Exchange rates	119
4.4. Related-party transactions	115	4.9. Management of capital	119
4.5. Information on disposals groups held for sale and discontinued operations	116	4.10. Minority interests- Core equity	119

### 4.1. Derivatives

#### a. Analysis by nature

(in EUR million)	31/12/2016		31/12/2017	
	Assets	Liabilities	Assets	Liabilities
<b>Derivatives at fair value through profit or loss (see notes 2.1 and 3.1)</b>	<b>16,415</b>	<b>16,878</b>	<b>12,509</b>	<b>12,782</b>
Derivatives designated as fair value hedges	6,151	29,306	4,517	24,452
Derivatives designated as cash flow hedges	199	1,805	185	1,406
Derivatives designated as portfolio hedges	480	2,685	283	2,000
<b>Hedging derivatives</b>	<b>6,830</b>	<b>33,796</b>	<b>4,985</b>	<b>27,858</b>
<b>TOTAL DERIVATIVES</b>	<b>23,245</b>	<b>50,674</b>	<b>17,494</b>	<b>40,640</b>

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

(in EUR million)	31/12/2016				31/12/2017			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
	To receive	To deliver			To receive	To deliver		
<b>Interest rate derivatives</b>	<b>215,260</b>	<b>214,243</b>	<b>14,990</b>	<b>15,722</b>	<b>197,039</b>	<b>196,510</b>	<b>11,443</b>	<b>11,983</b>
OTC options	1,239	470	7	23	1,091	372	2	19
OTC other	213,434	213,505	14,983	15,699	195,858	195,576	11,441	11,964
Organized market other	587	268	0	0	90	562	0	0
<b>Foreign exchange derivatives</b>	<b>21,862</b>	<b>22,071</b>	<b>949</b>	<b>1,001</b>	<b>21,884</b>	<b>21,848</b>	<b>848</b>	<b>676</b>
OTC options	302	302	54	55	0	0	0	0
OTC other	21,560	21,769	895	946	21,884	21,848	848	676
<b>Credit derivatives</b>	<b>4,297</b>	<b>1,355</b>	<b>475</b>	<b>155</b>	<b>3,372</b>	<b>1,237</b>	<b>218</b>	<b>123</b>
Credit default swap	4,297	1,355	475	155	3,372	1,237	218	123
<b>TOTAL</b>	<b>241,419</b>	<b>237,669</b>	<b>16,415</b>	<b>16,878</b>	<b>222,295</b>	<b>219,595</b>	<b>12,509</b>	<b>12,782</b>

#### c. Detail of derivatives designated as fair value hedges

(in EUR million)	31/12/2016				31/12/2017			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
	To receive	To deliver			To receive	To deliver		
<b>Interest rate derivatives</b>	<b>105,900</b>	<b>105,945</b>	<b>5,512</b>	<b>27,798</b>	<b>97,696</b>	<b>97,726</b>	<b>4,290</b>	<b>23,220</b>
OTC options	54	16	0	6	44	15	0	4
OTC other	105,846	105,929	5,512	27,792	97,652	97,711	4,290	23,216
<b>Equity derivatives<sup>(1)</sup></b>	<b>10</b>	<b>10</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
OTC other	10	10	1	0	0	0	0	0
<b>Foreign exchange derivatives</b>	<b>7,851</b>	<b>7,830</b>	<b>638</b>	<b>1,509</b>	<b>6,501</b>	<b>6,504</b>	<b>227</b>	<b>1,231</b>
OTC other	7,851	7,830	638	1,509	6,501	6,504	227	1,231
<b>TOTAL</b>	<b>113,761</b>	<b>113,785</b>	<b>6,151</b>	<b>29,306</b>	<b>104,197</b>	<b>104,230</b>	<b>4,517</b>	<b>24,451</b>

(1) This position includes hedging derivatives for securities with revenues partly linked to the evolution of a basket of equity shares.

#### d. Detail of derivatives designated as cash flow hedges

(in EUR million)	31/12/2016				31/12/2017			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
	To receive	To deliver			To receive	To deliver		
<b>Interest rate derivatives</b>	<b>3,373</b>	<b>3,393</b>	<b>49</b>	<b>1,243</b>	<b>3,021</b>	<b>3,035</b>	<b>31</b>	<b>1,016</b>
OTC other	3,373	3,393	49	1,243	3,021	3,035	31	1,016
<b>Foreign exchange derivatives</b>	<b>1,102</b>	<b>1,088</b>	<b>150</b>	<b>563</b>	<b>891</b>	<b>918</b>	<b>154</b>	<b>389</b>
OTC other	1,102	1,088	150	563	891	918	154	389
<b>TOTAL</b>	<b>4,475</b>	<b>4,481</b>	<b>199</b>	<b>1,805</b>	<b>3,912</b>	<b>3,953</b>	<b>185</b>	<b>1,406</b>

**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)	31/12/2016				31/12/2017			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
	To receive	To deliver			To receive	To deliver		
Portfolio fair value hedges of interest rate risk <sup>(1)</sup>	16,442	16,466	480	2,685	13,130	13,145	283	2,000
<b>TOTAL</b>	<b>16,442</b>	<b>16,466</b>	<b>480</b>	<b>2,685</b>	<b>13,130</b>	<b>13,145</b>	<b>283</b>	<b>2,000</b>

<sup>(1)</sup> In 2017, unwinding of swaps related to the asset disposal programme.**4.2. Deferred taxes****a. Analysis by nature**

(in EUR million)	31/12/2016	31/12/2017
Deferred tax assets	2,646	2,107
Unrecognised deferred tax assets	(2,614)	(2,078)
<b>Recognised deferred tax assets (see note 2.6)<sup>(1)</sup></b>	<b>32</b>	<b>29</b>
<b>Deferred tax liabilities (voir note 3.5)<sup>(1)</sup></b>	<b>(28)</b>	<b>0</b>
<b>TOTAL</b>	<b>4</b>	<b>29</b>

<sup>(1)</sup> 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 5.11 « Income tax » and in the « Consolidated statement of comprehensive income » respectively.

**b. Movements**

(in EUR million)	2016	2017
<b>AS AT 1 JANUARY</b>	<b>(124)</b>	<b>4</b>
Charge/credit recognised in the income statement : « Income tax » <sup>(1)</sup>	109	(1)
Movements directly recognised in shareholders' equity	22	21
Translation adjustment	(2)	4
Other movements	(1)	0
<b>AS AT 31 DECEMBER</b>	<b>4</b>	<b>29</b>

<sup>(1)</sup> In 2016, the main source of the increase are the losses related to the transfer of assets to Dexia Crédit Local Paris in the framework of closure and decrease in the activity of the Group's subsidiaries and branches.**c. Deferred taxes**

(in EUR million)	31/12/16	31/12/17
Deferred tax assets	2,646	2,107
Deferred tax liabilities	(28)	0
<b>DEFERRED TAXES</b>	<b>2,618</b>	<b>2,107</b>

Deferred taxes coming from assets	2016		2017	
	Total	of which, change through profit or loss	Total	of which, change through profit or loss
(in EUR million)				
Loans (and loan loss provisions)	(3,249)	(707)	(2,136)	1,119
Securities	(1,889)	(659)	(1,408)	845
Derivatives	(1,236)	96	(1,264)	52
Tangible fixed assets and intangible assets	3	12	0	(2)
Accruals and other assets	4	(2)	0	0
<b>TOTAL</b>	<b>(6,367)</b>	<b>(1,260)</b>	<b>(4,808)</b>	<b>2,014</b>

Deferred taxes coming from liabilities	2016		2017	
	Total	of which, change through profit or loss	Total	of which, change through profit or loss
(in EUR million)				
Derivatives	5,062	339	4,123	(937)
Borrowings, deposits and debt securities	1,407	7	1,044	(361)
Provisions	234	5	155	(77)
Pensions	5	0	5	(1)
Non-deductible provisions	(12)	(12)	(9)	3
Accruals and other liabilities	(115)	(2)	(39)	40
<b>TOTAL</b>	<b>6,581</b>	<b>337</b>	<b>5,279</b>	<b>(1,333)</b>

Deferred taxes coming from other elements	2016		2017	
	Total	of which, change through profit or loss	Total	of which, change through profit or loss
(in EUR million)				
Tax losses carried forward	2,405	141	1,636	(726)
Entity with special tax status	(1)	5	0	0
<b>TOTAL</b>	<b>2,404</b>	<b>146</b>	<b>1,636</b>	<b>(726)</b>

<b>TOTAL DEFERRED TAXES</b>	<b>2,618</b>	<b>2,107</b>
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#### d. Expiry date of unrecognised deferred tax assets

Nature	31/12/2016		
	Over 5 years	Unlimited maturity	Total
Temporary difference	0	(210)	(210)
Tax losses carried forward <sup>(1)</sup>	(545)	(1,860)	(2,405)
<b>TOTAL</b>	<b>(545)</b>	<b>(2,069)</b>	<b>(2,614)</b>

(1) The figures by expiry date have been restated.

Nature	31/12/2017			
	Between 1 to 5 years	Over 5 years	Unlimited maturity	Total
Temporary difference	0	0	(442)	(442)
Tax losses carried forward	(1)	(338)	(1,297)	(1,636)
<b>TOTAL</b>	<b>(1)</b>	<b>(338)</b>	<b>(1,739)</b>	<b>(2,078)</b>

### 4.3. Offsetting financial assets and financial liabilities

The following table presents the amounts of financial assets and liabilities before and after offsetting.

The column "Gross amounts set off on the balance sheet" discloses the amounts offset in accordance with the IAS 32 criteria described in note "Accounting principles and rules governing the consolidated financial statements". Amounts set off are related to Dexia's derivative instruments and repurchase agreements traded with clearing houses.

The column "Impact of Master Netting agreements and similar agreements" includes the amounts of financial instruments that are subject to an enforceable master netting arrangement or similar agreement but which do not meet the offsetting criteria defined by IAS 32. This is the case of Dexia's transactions that are subject to ISDA Master Netting Agreements and Global Master Repurchase Agreements for which offsetting can only be performed in case of default, insolvency or bankruptcy of one of the counterparties.

The Dexia Group Master Netting Agreement ("DGMNA") dated as of 2 November 2009 had been concluded between Dexia SA/NV, Banque Internationale à Luxembourg S.A. (formerly known as Dexia Banque Internationale à Luxembourg S.A.), Belfius Bank SA/NV (formerly known as Dexia Bank Belgium SA/NV), Dexia Crédit Local S.A. and Dexia Crediop SpA.

The DGMNA permits netting or "Set-Off" amounts owed under transactions governed by different agreements, including one or more ISDA Master agreements or other trading agreements ("Principal Agreements") between the parties to the DGMNA. The DGMNA essentially aims at allowing netting in the event of a default on behalf of one of the parties, and therefore permits netting only when the transactions under the Principal Agreements are accelerated, terminated, liquidated or canceled (a so-called "Close Out" situation).

When a party is in default under the DGMNA, each other non defaulting Party may elect to Close Out all of the transactions under each Principal Agreement to which such non defaulting Party is a party.

Banque Internationale à Luxembourg and Belfius Banque SA/NV are no longer part of the DGMNA since 29 January 2014, respectively 16 November 2015.

The columns "Cash collateral" and "Financial instruments received or given as collateral" disclose the amounts related to financial collateral. They mainly include Dexia's guarantee deposits and securities received or given as collateral and disclosed at their fair value. These guarantees can only be exercised in case of default, insolvency or bankruptcy of one of the counterparties.

Dexia includes instruments at their recognised amounts, however the amount of collateral is limited to the amount of the guaranteed asset or liability.



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

	31/12/2016						
	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Related amounts not set off on the balance sheet			Net amounts
				Impact of Master Netting Agreements and similar agreements	Cash collateral received	Financial instruments received as collateral	
(in EUR million)							
Derivatives	22,416	(324)	22,092	(13,069)	(2,555)	(62)	6,406
Reverse repurchase and similar agreements	2,389	0	2 389	0	(9)	(2,380)	0
<b>TOTAL FINANCIAL ASSETS IN SCOPE OF OFFSETTING DISCLOSURES</b>	<b>24,805</b>	<b>(324)</b>	<b>24,481</b>	<b>(13,069)</b>	<b>(2,564)</b>	<b>(2,442)</b>	<b>6,406</b>

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

	31/12/2016						Net amounts
	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	
(in EUR million)							
Derivatives	50,872	(324)	50,548	(13,069)	(34,706)	0	2,774
Repurchase and similar agreements	32,283	0	32,283	0	(326)	(30,372)	1,585
<b>TOTAL FINANCIAL LIABILITIES IN SCOPE OF OFFSETTING DISCLOSURES</b>	<b>83,155</b>	<b>(324)</b>	<b>82,831</b>	<b>(13,069)</b>	<b>(35,032)</b>	<b>(30,372)</b>	<b>4,359</b>

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

	31/12/2017						Net amounts
	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	
(in EUR million)							
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
<b>TOTAL FINANCIAL ASSETS IN SCOPE OF OFFSETTING DISCLOSURES</b>	<b>19,913</b>	<b>(347)</b>	<b>19,566</b>	<b>(10,384)</b>	<b>(1,946)</b>	<b>(2,271)</b>	<b>4,964</b>

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

	31/12/2017						Net amounts
	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	
(in EUR million)							
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
<b>TOTAL FINANCIAL LIABILITIES IN SCOPE OF OFFSETTING DISCLOSURES</b>	<b>68,857</b>	<b>(347)</b>	<b>68,510</b>	<b>(10,383)</b>	<b>(27,218)</b>	<b>(27,290)</b>	<b>3,618</b>

## 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)	2016	2017
Short-term benefits <sup>(1)</sup>	4	4
Termination benefits	1	0

(\*) 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 Compensation report in the chapter Declaration of corporate 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 2017, the total outstanding amount of obligations guaranteed by the States pursuant to the 2013 Guarantee Agreement was EUR 68 billion. In 2017, Dexia paid a total monthly remuneration of EUR 35 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](http://www.dexia.com)).

## 4.5. Information on disposals groups held for sale and discontinued operations

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

In 2017, pursuant to IFRS 5, Dexia Israel was classified as a disposal group held for sale.

(in EUR million)	2017
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 debt	(38)
<b>NET ASSETS</b>	<b>174</b>

**b. Income Statement**

31/12/2016	BIL	Dexia Asset Manage- ment	Deniz- Bank	Total
(in EUR million)				
Result on disposal	3	4	10	17
<b>Income from discontinued operations, net of tax</b>	<b>3</b>	<b>4</b>	<b>10</b>	<b>17</b>
Minority interest				
Groupe share				17
Earning per share				
- basic				8.58
- diluted				0.54

31/12/2017	BIL
(in EUR million)	
Result on disposal	2
<b>Income from discontinued operations, net of tax</b>	<b>2</b>
Minority interest	
Groupe share	2
Earning per share	
- basic	0.01
- diluted	0.01

**4.6. Share-based payments**

Dexia stock option plans (number of options)	2016	2017
Outstanding at the beginning of the period	32,096,802	21,968,453
Expired during the period	(10,128,349)	(10,883,145)
<b>Outstanding at the end of the period</b>	<b>21,968,453</b>	<b>11,085,308</b>
<b>Exercisable at the end of the period</b>	<b>21,968,453</b>	<b>11,085,308</b>

2016				2017			
Range of exercise prices (EUR)	Number of outstanding options	Weighted-average exercise price (EUR)	Weighted-average remaining contractual life (years)	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	1.49	9.12 - 10.27	7,553,684	9.12	0.50
10.74 - 12.35	3,531,624	11.44	1.49	10.74 - 12.35	3,531,624	11.44	0.50
19.21 - 21.02	10,883,145	21.02	0.5	19.21 - 21.02	0	21.02	0
<b>TOTAL</b>	<b>21,968,453</b>			<b>TOTAL</b>	<b>11,085,308</b>		

Since 2008 no option has been exercised as they are out of the money.

Following the reverse stock split, the general conditions accompanying the issue of warrants were amended by notarised deed in order to place the beneficiaries of warrants in a situation substantially equivalent to that in which they would have been if the aforementioned operation had not occurred. The number of warrants necessary to subscribe to 1(one) new share is henceforth one thousand (1,000). The exercise price per warrant remains unchanged.

## 4.7. Capital stock

	2016		2017	
	Class A	Class B <sup>(1)</sup>	Class A	Class B
Number of shares authorised	1,948,984	28,947,368	420,134,302	
Number of shares issued and fully paid	1,948,984	28,947,368	420,134,302	
Number of shares issued and not fully paid				
<b>Value per share</b>	<b>no nominal value</b>	<b>no nominal value</b>	<b>no nominal value</b>	<b>no nominal value</b>
Outstanding as at 1 Jan.	30,896,352,895		1,948,984	28,947,368
Number of shares issued			418,185,318	
Number of shares cancelled				28,947,368
Reverse stock split <sup>(2)</sup>	/ 1000			
Outstanding as at 31 Dec.	30,896,352		420,134,302	0
Rights, preferences and restrictions, including restrictions on the distribution of dividends and the repayment of capital		28,947,368		
Number of treasury shares	323		112	
Number of shares reserved for issue under stock options and contracts for the sale of shares	323		112	

(1) The Class B shares have been converted into ordinary shares (Class A shares) at a conversion rate of 14.446 ordinary shares (Class A) against one preference share (Class B). See also press release of 07/12/2017, available on [http://www.dexia.com/EN/journalist/press\\_releases/Pages/20171207-.aspx](http://www.dexia.com/EN/journalist/press_releases/Pages/20171207-.aspx)

(2) The board of directors of Dexia SA has implemented the reverse stock split of the shares of Dexia SA (Class A and Class B), in accordance with the resolution passed by the extraordinary shareholders' meeting on 20 May 2015, with a ratio of one new share (ISIN BE 0974290224) for one thousand existing shares (ISIN BE 0003796134), with effect on 4 March 2016.

All the information on the reverse stock split is available on the Dexia website: [http://www.dexia.com/EN/shareholder\\_investor/shareholder\\_information/reverse/Pages/default.aspx](http://www.dexia.com/EN/shareholder_investor/shareholder_information/reverse/Pages/default.aspx).

See note 4.4.c Transactions with the Belgian, French and Luxembourg States.

See note 4.6 Share-based payments.

The share capital of Dexia SA amounts to EUR 500,000,000 as at 31 December 2017.

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 2017, they include 224,942 of registered shares and 1,724,042 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, on 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.

## 4.8. Exchange rates

The primary exchange rates are presented in the following schedule.

		31/12/2016		31/12/2017	
		Closing rate <sup>(1)</sup>	Average rate <sup>(2)</sup>	Closing rate <sup>(1)</sup>	Average rate <sup>(2)</sup>
Australian dollar	AUD	1.4629	1.4854	1.5364	1.4812
Canadian dollar	CAD	1.4201	1.4584	1.5064	1.4754
Swiss Franc	CHF	1.0739	1.0901	1.1720	1.1166
Czech Koruna	CZK	27.0210	27.0388	25.5255	26.2852
Danish Krone	DKK	7.4348	7.4446	7.4456	7.4388
British Pound Sterling	GBP	0.8552	0.8231	0.8878	0.8760
Hong-Kong dollar	HKD	8.2011	8.5665	9.3774	8.8780
Hungarian forint	HUF	308.5850	311.5592	310.1400	309.2842
Shekel	ILS	4.0677	4.2261	4.1613	4.0640
Japanese Yen	JPY	123.4200	120.4517	135.0350	127.2879
Won	KRW	1272.9950	1280.1900	1281.8400	1276.8300
Mexican Peso	MXN	21.8382	20.6331	23.5333	21.4682
Norwegian Krone	NOK	9.0930	9.2558	9.8219	9.3778
New Zealand dollar	NZD	1.5179	1.5825	1.6881	1.5993
Swedish Krona	SEK	9.5573	9.4743	9.8271	9.6457
Singapore dollar	SGD	1.5270	1.5245	1.6035	1.5629
New Turkish Lira	TRY	3.7200	3.3406	4.5474	4.1484
US Dollar	USD	1.0576	1.1037	1.1998	1.1388

(1) Rates 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.

## 4.9. Management of capital

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

## 4.10. Minority interests- Core equity

<b>AS AT 1 JANUARY 2016</b>	<b>446</b>
- Net income for the period	(1)
<b>AS AT 31 DECEMBER 2016</b>	<b>445</b>
<b>AS AT 1 JANUARY 2017</b>	<b>445</b>
- Increase of capital	4
- Dividends <sup>(2)</sup>	(33)
- Net income for the period	1
- Other <sup>(3)</sup>	11
<b>AS AT 31 DECEMBER 2017 <sup>(1)</sup></b>	<b>428</b>

(1) This amount includes EUR 56 million of undated subordinated non-cumulative Notes issued by Dexia Crédit Local, EUR 319 million of minority interests in Dexia Crediop and EUR 53 million of minority interest in Dexia Israel.

(2) Dividends paid by Dexia Israel.

(3) Impact of interest rate decrease in Dexia Israel.



## 5. Notes on the statement of income

(some amounts may not add up due to roundings off)

5.1. Interest income - Interest expense (Items I and II)	120	5.7. Operating expenses (Item X)	122
5.2. Commissions (Items III and IV)	121	5.8. Depreciation, amortisation and impairment of tangible fixed assets and intangible assets (Item XI)	124
5.3. Net gains (losses) on financial instruments at fair value through profit or loss (Item V)	121	5.9. Cost of risk (Item XIII)	124
5.4. Net gains (losses) on financial assets available for sale (Item VI)	122	5.10. Net gains ( losses) on other assets (Item XVI)	125
5.5. Other income (Item VII)	122	5.11. Income tax (Item XIX)	125
5.6. Other expenses (Item VIII)	122	5.12. Earnings per share	126

### 5.1. Interest income - Interest expense (Items I and II - Statement of income)

(in EUR million)	2016	2017
<b>Interest income</b>	<b>10,016</b>	<b>9,866</b>
<b>a) Interest income on assets not measured at fair value</b>	<b>3,932</b>	<b>3,513</b>
Cash and central banks	22	54
Interbank loans and advances	124	145
Customer loans and advances	3,154	2,775
Financial assets available for sale	543	403
Financial assets held to maturity	50	101
Impaired assets	7	3
Other	32	32
<b>b) Interest income on assets measured at fair value</b>	<b>5,755</b>	<b>5,690</b>
Loans and securities held for trading	24	16
Derivatives held for trading	3,613	3,313
Hedging derivatives	2,118	2,361
<b>c) Positive interests on financial liabilities</b>	<b>330</b>	<b>662</b>
Positive interests on financial liabilities <sup>(2)</sup>	330	662
<b>Interest expense</b>	<b>(9,818)</b>	<b>(9,696)</b>
<b>a) Interest expense on liabilities not measured at fair value</b>	<b>(2,054)</b>	<b>(1,952)</b>
Interbank borrowings and deposits	(422)	(398)
Customer borrowings and deposits	(73)	(51)
Debt securities	(1,519)	(1,458)
Subordinated debt	4	(1)
Amounts covered by sovereign guarantees <sup>(1)</sup>	(35)	(38)
Other	(9)	(6)
<b>b) Interest expense on liabilities measured at fair value</b>	<b>(7,465)</b>	<b>(7,288)</b>
Liabilities designated at fair value	(73)	(63)
Derivatives held for trading	(3,653)	(3,488)
Hedging derivatives	(3,739)	(3,737)
<b>c) Negative interests on financial assets</b>	<b>(299)</b>	<b>(456)</b>
Negative interests on financial assets <sup>(2)</sup>	(299)	(456)
<b>Net interest income</b>	<b>198</b>	<b>170</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> In the current environment of very low or negative rates, Dexia decided to present separately positive interests on financial liabilities and negative interests on financial assets.

## 5.2. Fees and Commissions (Items III and IV - Statement of income)

(in EUR million)	2016			2017		
	Income	Expense	Net	Income	Expense	Net
Lending activity	8	(3)	5	8	(2)	6
Purchase and sale of securities	0	(2)	(2)	0	(3)	(3)
Payment services	1	(2)	(1)	1	(4)	(3)
Services on securities other than custodial services	0	(2)	(2)	0	(2)	(2)
Custodial services	5	(1)	4	3	(1)	2
Intermediation on repo and reverse repo	0	(4)	(4)	0	(5)	(5)
Other	4	(2)	2	2	(1)	1
<b>TOTAL</b>	<b>18</b>	<b>(18)</b>	<b>0</b>	<b>15</b>	<b>(18)</b>	<b>(3)</b>

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 (Items V - Statement of income)

(in EUR million)	2016	2017
Net trading income	210	(115)
Net result of hedge accounting	209	(131)
Net result of financial instruments designated at fair value through profit or loss <sup>(1)</sup>	34	35
Change in own credit risk <sup>(2)</sup>	(36)	0
Funding costs associated with non-collateralised derivatives (FVA) <sup>(3)(4)</sup>	(57)	40
Change in fair value of derivatives attributable to counterparty risk (credit value adjustment) <sup>(3)</sup>	11	119
Change in fair value of derivatives attributable to own credit risk (debit value adjustment) <sup>(3)</sup>	(52)	(32)
Net result of foreign exchange transactions	(44)	0
<b>TOTAL</b>	<b>275</b>	<b>(84)</b>
(1) among which trading derivatives included in a fair value option strategy	(50)	(25)

(2) Dexia has decided an early application, as from 1 January 2017, as permitted by IFRS 9 "Financial Instruments", of the treatment related to changes in the fair value attributable to own credit risk (OCR) of financial liabilities designated at fair value through profit or loss, which stipulates the recognition through equity and no longer through income of changes in fair value attributable to own credit risk, with no possibility of recycling through income.

(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)	2016	2017
<b>Fair value hedges</b>	<b>206</b>	<b>(76)</b>
Fair value changes of the hedged item attributable to the hedged risk	1,660	(2,322)
Fair value changes of the hedging derivatives	(1,454)	2,246
<b>Cash flow hedges <sup>(1)</sup></b>	<b>2</b>	<b>(55)</b>
Fair value changes of the hedging derivatives – ineffective portion	2	0
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	0	(55)
<b>Portfolio hedge</b>	<b>1</b>	<b>1</b>
Fair value changes of the hedged item	175	(426)
Fair value changes of the hedging derivatives	(174)	427
<b>TOTAL</b>	<b>209</b>	<b>(131)</b>
Discontinuation of cash flow hedge accounting (cash flows still expected to occur) - amounts recorded in interest margin	2	(1)

(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 (Item VI - Statement of income)

(in EUR million)	2016	2017
Dividends on securities available for sale	13	2
Net gain (loss) on disposals of financial assets available for sale <sup>(1)(3)</sup>	13	(79)
Impairment of variable-income securities available for sale	(2)	(1)
Net gain (loss) on disposals of loans and advances <sup>(4)</sup>	15	(85)
Net gain (loss) on redemption of debt securities <sup>(2)</sup>	36	1
<b>TOTAL</b>	<b>76</b>	<b>(162)</b>

(1) Except for gains and losses on impaired fixed-income securities, which are included in cost of risk.

(2) 2016: Of which EUR + 38 million due to redemption of Euro Medium Term Notes.

(3) As part of a disposal programme, 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 hedge which generated a recognition of losses for EUR 91 million.

(4) As part of a disposal programme, 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.

## 5.5. Other income (Item VII - Statement of income)

(in EUR million)	2016	2017
Operating taxes	2	0
Rental income	3	0
Other banking income	1	0
Litigations <sup>(1)</sup>	62	81
Other income	13	7
<b>TOTAL</b>	<b>82</b>	<b>89</b>

(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 5.5 Other income and in Note 5.6 Other expenses.

## 5.6. Other expenses (Item VIII - Statement of income)

(in EUR million)	2016	2017
Provisions for litigations <sup>(1)</sup>	(110)	(67)
Other expenses	(15)	(6)
<b>TOTAL</b>	<b>(125)</b>	<b>(74)</b>

(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 5.5 Other income and in Note 5.6 Other expenses.

## 5.7. Operating expenses (Item X - Statement of income)

(in EUR million)	2016	2017
Payroll costs	(163)	(166)
General and administrative expenses	(228)	(241)
<b>TOTAL</b>	<b>(391)</b>	<b>(406)</b>

### a. Payroll Costs

(in EUR million)	2016	2017
Compensation and salary expense	(108)	(106)
Social security and insurance expense	(37)	(37)
Employee benefits	(11)	(8)
Restructuring costs	0	(9)
Other	(7)	(6)
<b>TOTAL</b>	<b>(163)</b>	<b>(166)</b>

**b. Employee information**

	2016	2017
(Average full time equivalent)	Fully consolidated	Fully consolidated
Executive staff	37	35
Administrative staff	1,097	948
Non-administrative and other personnel	14	13
<b>TOTAL</b>	<b>1,148</b>	<b>996</b>

	2016							
(Average full time equivalent)	Belgium	France	Italy	Spain	Other Europe	USA	Other non Europe	Total
Executive staff	13	4	2	1	5	8	4	37
Administrative staff	55	649	110	31	111	98	43	1,097
Non-administrative and other personnel	0	0	1	0	0	13	0	14
<b>TOTAL</b>	<b>68</b>	<b>653</b>	<b>113</b>	<b>32</b>	<b>116</b>	<b>119</b>	<b>47</b>	<b>1,148</b>

	2017							
(Average full time equivalent)	Belgium	France	Italy	Spain	Other Europe	USA	Other non Europe	Total
Executive staff	12	4	2	1	4	8	4	35
Administrative staff	54	550	98	18	95	92	41	948
Non-administrative and other personnel	0	0	1	0	0	12	0	13
<b>TOTAL</b>	<b>66</b>	<b>554</b>	<b>101</b>	<b>19</b>	<b>99</b>	<b>112</b>	<b>45</b>	<b>996</b>

**c. General and administrative expenses**

(in EUR million)	2016	2017
Cost of premises	(5)	(5)
Rent expense <sup>(1)</sup>	(13)	(18)
Fees	(66)	(55)
Marketing, advertising and public relations	(1)	(1)
IT expense	(33)	(39)
Software, research and development	(6)	(6)
Maintenance and repair	(2)	(1)
Restructuring costs	1	0
Insurance (except related to pensions)	(6)	(5)
Stamp duty	(1)	0
Other taxes <sup>(2)</sup>	(118)	(88)
Other general and administrative expenses <sup>(3)</sup>	20	(22)
<b>TOTAL</b>	<b>(228)</b>	<b>(241)</b>

(1) This amount does not include IT equipment rental expenses, which are included in the «IT expense» line

(2) 2016: This item includes a charge of EUR -63 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 - 25 million representing an exceptional contribution for Italian Banks rescue, an amount of EUR -11.2 million representing the annual levy for systemic risk and an amount of EUR -2.6 million representing the Dexia contribution to the local authority and hospital sector support funds introduced in France.

2017: This item includes a charge of EUR -67.2 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.

(3) 2016: this amount includes an impact of EUR 35 million generated by a reversal of provision for litigation related to the former subsidiary Financial Security Assurance Holdings Ltd.

## 5.8. Depreciation, amortisation and impairment of tangible fixed assets and intangible assets (Item XI - Statement of income)

Depreciation and amortisation (in EUR million)	2016	2017
Depreciation of other tangible fixed assets	(3)	(3)
Amortization of intangible assets	(12)	(12)
<b>TOTAL</b>	<b>(16)</b>	<b>(15)</b>

### Impairment

Nil.

### Losses or gains

Nil.

## 5.9. Cost of risk (Item XIII - Statement of income)

(in EUR million)	2016			2017		
	Collective impairment	Specific impairment and losses	TOTAL	Collective impairment	Specific impairment and losses	TOTAL
Credit (loans, commitments and securities held to maturity)	10	59	69	71	(39)	32
Fixed-income securities available for sale		71	71		0	0
<b>TOTAL</b>	<b>10</b>	<b>130</b>	<b>140</b>	<b>71</b>	<b>(39)</b>	<b>33</b>

### Detail of collective and specific impairments

Collective impairment (in EUR million)	2016			2017		
	Additions	Recoveries	Total	Additions	Recoveries	Total
Loans and securities held to maturity	(96)	105	10	(65)	137	71
<b>TOTAL</b>	<b>(96)</b>	<b>105</b>	<b>10</b>	<b>(65)</b>	<b>137</b>	<b>71</b>

Specific impairment (in EUR million)	2016			
	Additions	Recoveries	Losses	Total
Customer loans and advances	(136)	275	(77)	62
Off-balance sheet commitments	(6)	3	0	(3)
<b>TOTAL CREDIT</b>	<b>(142)</b>	<b>278</b>	<b>(77)</b>	<b>59</b>
<b>FIXED-INCOME SECURITIES AVAILABLE FOR SALE</b>	<b>0</b>	<b>98</b>	<b>(26)</b>	<b>72</b>
<b>TOTAL</b>	<b>(142)</b>	<b>376</b>	<b>(103)</b>	<b>130</b>

Specific impairment (in EUR million)	2017			
	Additions	Recoveries	Losses	Total
Customer loans and advances	(89)	141	(92)	(41)
Off-balance sheet commitments	(1)	3	0	2
<b>TOTAL CREDIT</b>	<b>(90)</b>	<b>143</b>	<b>(92)</b>	<b>(39)</b>
<b>TOTAL</b>	<b>(90)</b>	<b>143</b>	<b>(92)</b>	<b>(39)</b>

## 5.10. Net gains ( losses) on other assets (Item XVI - Statement of income)

(in EUR million)	2016	2017
Net gains (losses) on disposals of buildings	1	2
Gains/losses on the disposal of assets held for sale <sup>(1)</sup>	55	0
Net gains (losses) on disposals of consolidated equity investments	(2)	0
<b>TOTAL</b>	<b>54</b>	<b>2</b>

(1) 2016: Capital gain of EUR + 50 million on the sale of the CBX Tower in La Défense.

## 5.11. Income tax (Item XIX - Statement of income)

Detail of tax expense	2016	2017
(in EUR million)		
Income tax on current year	(19)	(6)
Deferred taxes on current year <sup>(1)</sup>	109	1
<b>TAX ON CURRENT YEAR RESULT (A)</b>	<b>90</b>	<b>(4)</b>
Income tax on previous year	0	(7)
Deferred taxes on previous year	0	(2)
Provision for tax litigations	(47)	0
<b>OTHER TAX EXPENSE (B)</b>	<b>(47)</b>	<b>(9)</b>
<b>TOTAL (A) + (B)</b>	<b>42</b>	<b>(13)</b>

(1) In 2016, the income was mainly due to losses related to the transfer of assets to Dexia Crédit Local Paris in the framework of closure and decrease in the activity of the Group's subsidiaries and branches.

### Effective corporate income tax charge

The standard tax rate applicable in Belgium in 2016 and 2017 was 33.99%.

Dexia effective tax rate was respectively -30,86 % in 2016 and -0,90% for 2017.

The difference between the standard and the effective tax rate can be analysed as follows:

(in EUR million)	2016	2017
<b>Net income before tax</b>	<b>293</b>	<b>(450)</b>
<b>Tax base</b>	<b>293</b>	<b>(450)</b>
Statutory tax rate	33.99 %	33.99 %
<b>Theoretical corporate income tax at the standard rate</b>	<b>(100)</b>	<b>153</b>
Impact of differences between foreign tax rates and the standard Belgian tax rate	(275)	(20)
Tax effect of non-deductible expenses	(307)	(116)
Tax effect of non-taxable income	185	135
Impact of items taxed at a reduced rate	27	5
Tax effect of change in tax rates or in regulation	0	0
Other additional taxes or tax savings <sup>(1)</sup>	(302)	(6)
Tax effect from reassessment of unrecognised deferred tax assets	862	(155)
<b>Tax on current year</b>	<b>90</b>	<b>(4)</b>
<b>Effective tax rate</b>	<b>(30.86 %)</b>	<b>(0.90 %)</b>

(1) In 2016, the amount includes EUR - 198 million related to the deferral of tax deduction of capital losses on intra-group transfers of securities.



## 5.12. 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 outstanding during the year, less the average

number of ordinary shares purchased by the company and held as treasury stock.

	2016	2017
Net income, Group share (EUR million)	353	(462)
Weighted average number of ordinary shares (thousand) <sup>(1)</sup>	1,949	29,574
Basic earnings per share (in EUR) <sup>(1)</sup>	181.23	(15.63)
- of which, related to continuing activities	172.65	(15.64)
- of which, related to discontinued activities	8.58	0.01

(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 4.7 Capital stock.

### 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 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.

	2016	2017
Net income, Group share (EUR million)	353	(462)
Weighted-average number of ordinary shares (thousand) <sup>(1)</sup>	1,949	29,574
Adjustment for stock-options and for class B shares (thousand)	28,947	
Weighted average number of ordinary shares used for the calculation of diluted earnings per share (thousand) <sup>(1)</sup>	30,896	29,574
Diluted earnings per share (in EUR) <sup>(1)</sup>	11.43	(15.63)
- of which, related to continuing activities	10.89	(15.64)
- of which, related to discontinued activities	0.54	0.01

(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 4.7 Capital stock.

## 6. Note on off-balance sheet items

### 6.1. Regular way trades

(in EUR million)	31/12/2016	31/12/2017
Assets to be delivered	13	0
Liabilities to be received	106	603

### 6.2. Guarantees

(in EUR million)	31/12/2016	31/12/2017
Guarantees given to credit institutions	462	397
Guarantees given to customers	1,638	989
Guarantees received from credit institutions	752	250
Guarantees received from customers	6,076	4,594
Guarantees received from the States	71,780	67,623

### 6.3. Loan commitments

(in EUR million)	31/12/2016	31/12/2017
Unused lines granted to credit institutions	10	10
Unused lines granted to customers	1,777	1,045
Unused lines granted from credit institutions	5,718	4,453
Unused lines granted from customers	817	807

### 6.4. Other commitments

(in EUR million)	31/12/2016	31/12/2017
Financial instruments given as collateral and other commitments given	79,392	65,951
Financial instruments received as collateral and other commitments received	13,197	13,117

## 7. Note on risk exposure

(some amounts may not add up due to roundings off)

7.0. Risk exposure and hedging strategy	128	7.5. Sensitivity to interest rate risk and other market risks	141
7.1. Fair value	128	7.6. Liquidity risk	143
7.2. Credit risk exposure	132	7.7. Currency risk	145
7.3. Collateral	137		
7.4. Interest-rate repricing risk: breakdown by remaining maturity until next refixing interest rate	138		

### 7.0. Risk exposure and hedging strategy

We also refer to chapter Risk Management of the 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.

(in EUR million)	31/12/16		
	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	4,223	4,223	0
Interbank loans and advances	7,503	7,392	(111)
Customer loans and advances	119,206	111,896	(7,310)
Financial assets held to maturity	1,918	1,885	(33)
Central banks	690	690	0
Interbank borrowings and deposits	40,238	40,237	(1)
Customer borrowings and deposits	10,778	10,816	37
Debt securities	98,524	98,907	383
Subordinated debt	482	479	(3)

(in EUR million)	31/12/17		
	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

### 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. Following the adoption of IFRS 13 Fair value measurement as from 1 January 2013, the method used to measure the fair value applies to all financial instruments.

#### Fair value of financial assets

(in EUR million)	31/12/16				31/12/17			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash and central banks	0	4,223	0	4,223	0	10,721	0	10,721
Financial assets at fair value through profit and loss	1	12,253	5,527	17,781	1	9,030	4,158	13,188
* <i>Loans and securities held for trading</i>	0	0	1,365	1,365	0	0	679	679
* <i>Financial assets designated at fair value - equities</i>	1	0	0	1	1	0	0	1
* <i>Derivatives held for trading</i>	0	12,253	4,162	16,415	0	9,030	3,479	12,509
Hedging derivatives	0	5,477	1,354	6,830	0	4,170	814	4,985
Financial assets available for sale	13,234	741	2,593	16,568	8,271	23	2,537	10,830
* <i>Financial assets available for sale - bonds</i>	13,153	727	2,479	16,358	8,190	12	2,440	10,642
* <i>Financial assets available for sale - equities</i>	82	14	115	210	80	10	98	188
Interbank loans and advances	0	2,441	4,951	7,392	0	2,315	3,663	5,979
Customer loans and advances	50	620	111,226	111,896	641	0	91,256	91,898
Financial assets held to maturity	1,657	99	129	1,885	1,563	0	365	1,928
Financial assets included in non current assets held for sale	0	0	0	0	253	711	1,127	2,092
<b>TOTAL</b>	<b>14,942</b>	<b>25,853</b>	<b>125,780</b>	<b>166,575</b>	<b>10,728</b>	<b>26,971</b>	<b>103,921</b>	<b>141,621</b>

#### Fair value of financial liabilities

(in EUR million)	31/12/16				31/12/17			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Central banks	0	690	0	690	0	0	0	0
Financial liabilities at fair value through profit and loss	1	13,827	4,848	18,676	1	10,277	3,915	14,193
* <i>Financial liabilities designated at fair value</i>	1	1,278	520	1,798	1	994	416	1,410
* <i>Derivatives held for trading</i>	0	12,549	4,329	16,878	0	9,283	3,499	12,782
Hedging derivatives	0	18,479	15,318	33,796	0	14,916	12,942	27,858
Interbank borrowings and deposits	0	21,614	18,623	40,237	0	17,385	13,624	31,009
Customer borrowings and deposits	0	8,074	2,742	10,816	0	1,118	5,315	6,433
Debt securities	0	69,453	29,454	98,907	0	68,764	21,470	90,234
Subordinated debt	0	0	479	479	0	0	161	161
Financial liabilities included in disposal groups held for sale	0	0	0	0	0	1,818	0	1,818
<b>TOTAL</b>	<b>1</b>	<b>132,137</b>	<b>71,464</b>	<b>203,601</b>	<b>1</b>	<b>114,277</b>	<b>57,427</b>	<b>171,705</b>

**d. Transfer between level 1 and level 2**

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

(in EUR million)	31/12/16		31/12/17	
	From 1 to 2	From 2 to 1	From 1 to 2	From 2 to 1 <sup>(1)</sup>
Financial assets available for sale - bonds	550	62	0	136
<b>TOTAL FINANCIAL ASSETS</b>	<b>550</b>	<b>62</b>	<b>0</b>	<b>136</b>
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

(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.

**e. Level 3 reconciliation**

(in EUR million)	2016								
	Opening balance	Total gains/losses in P&L	Unrealised or deferred gains/losses	Purchase	Sale	Settlement	Transfer into level 3	Transfer out of level 3	Other movements <sup>(1)</sup>
Loans and securities held for trading	1,375	144				(56)			(98)
Derivatives held for trading	3,698	590		64			2	(22)	(170)
Hedging derivatives	1,200	86	40			(4)	42	(7)	(3)
Financial assets available for sale - bonds	2,375	65	(16)	29	(1)	(424)	560	(155)	47
Financial assets available for sale - equities	138	(2)	1		(22)				
<b>TOTAL FINANCIAL ASSETS</b>	<b>8,786</b>	<b>884</b>	<b>26</b>	<b>93</b>	<b>(24)</b>	<b>(484)</b>	<b>604</b>	<b>(184)</b>	<b>(225)</b>
Financial liabilities designated at fair value	495	24				(15)			16
Derivatives held for trading	4,469	57		100		(2)	14	(14)	(297)
Hedging derivatives	14,376	1,128	79	935			6	(398)	(809)
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>19,340</b>	<b>1,210</b>	<b>79</b>	<b>1,035</b>		<b>(17)</b>	<b>21</b>	<b>(412)</b>	<b>(1,090)</b>

(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 -265 million in result and to EUR 40 million recognised in Unrealised or deferred gains and losses through equity. On the liabilities side, they amount to EUR -1,106 million recognised in result and to EUR 16 million recognised in Unrealised or deferred gains or losses through equity.

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

	2017										
	Opening balance	Transfers in Non current assets held for sale	Total gains/ losses in P&L	Unrealised or deferred gains/ losses	Purchase	Sale <sup>(1)</sup>	Settlement	Transfer into level 3 <sup>(2)</sup>	Transfer out of level 3 <sup>(2)</sup>	Other movements <sup>(3)</sup>	Closing
(in EUR million)											
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 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		(2,756)	34	599		(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.

#### f. Sensitivity of level 3 valuations to alternative assumptions

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

For the instruments within this category, the only unobservable parameters are the credits spreads (of bonds and CDS) for which Dexia uses the available credit spreads for the same counterparty or, if not available, the credit spreads for similar counterparties or belonging to similar sectors. Therefore, Dexia decided to elaborate alternative assumptions on the credit spreads. It should be noted that in 2017, Dexia has further developed the valuation techniques for Negative Basis Trade (NBT), products which each consist of a bond and a CDS, each of the elements is now valued independently, whereas they were valued as one single product in 2016.

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

- For level 3 bonds in AFS, the sensitivity of the AFS reserve to alternative assumptions is estimated to vary between EUR -17 million (negative impact) and EUR +17 million (positive impact) for 2017, while in 2016, it was estimated to vary between EUR -21.5 million (negative impact) and EUR +21.5 million (positive impact).

- For level 3 bonds in the trading portfolio (Trading), the sensitivity of the variation in market value to alternative assumptions is estimated to vary between EUR -9 million (negative impact) and EUR +9 million (positive impact) for 2017. Bonds of this category are mostly components of NBT.
- The impact of the credit spreads alternative assumptions on Dexia's credit derivatives is estimated at EUR 15.5 million (positive scenario) versus EUR -15.8 million (negative scenario) before tax, while in 2016, it was estimated at EUR 14.1 million (positive scenario) versus EUR -14.7 million (negative scenario). It is to be noted that certain CDS are part of NBT.

In 2016, the bond and the CDS related to NBTs were tested together. The main assumption having an impact on their fair value was the unwinding impact. Based on the important number of unwinds performed by Dexia since 2009, and taking into account the stock of remaining NBT transactions in 2016, the positive impact (average unwinds cost of 2014) is EUR +5.2 million whereas the negative impact (average unwinds cost of 2011) gives an impact of EUR -19.8 million.

#### 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 2017, the credit risk exposure amounts to EUR 142 billion.

### a. Exposure by geographical region and by counterparty category

#### Exposure by geographic region

(in EUR million)	31/12/16	31/12/17
France	25,484	28,201
Belgium	2,035	1,648
Germany	20,689	17,835
Greece	128	88
Ireland	103	10
Italy	25,512	23,002
Luxembourg	85	38
Spain	14,154	10,136
Portugal	3,905	3,924
Hungary	275	2
Austria	1,118	1,058
Central and Eastern Europe	1,843	954
Netherlands	390	130
Scandinavian countries	1,229	528
Great Britain	25,461	22,178
Switzerland	399	357
Turkey	367	169
United States and Canada	26,552	19,554
South and Central America	490	430
Southeast Asia	620	451
Japan	7,479	6,152
Israel	2,347	2,083
Other <sup>(1)</sup>	4,000	2,956
<b>TOTAL</b>	<b>164,665</b>	<b>141,881</b>

(1) Includes supranational entities.

#### Exposure by category of counterpart

(in EUR million)	31/12/16	31/12/17	of which Dexia Israel
Central governments	25,458	29,701	979
Local public sector <sup>(1)</sup>	89,298	75,621	1,045
Financial institutions	20,123	13,174	9
Corporates	7,607	5,807	35
Monoline	2,062	1,500	
ABS/MBS	6,600	4,424	
Project finance	13,515	11,652	20
Individuals, SME, self-employed	2	1	
<b>TOTAL</b>	<b>164,665</b>	<b>141,881</b>	<b>2,088</b>

(1) 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. As at 31/12/2016, this category includes: EUR 50 million on Greece, EUR 2 million on Hungary, EUR 10,750 million on Italy, EUR 1,794 million on Portugal and EUR 6,785 million on Spain.



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

	31/12/16			31/12/17			of which Dexia Israel		
	Credit risk exposure before financial effect of the collateral	Financial effect of the collateral	Credit risk exposure	Credit risk exposure before financial effect of the collateral	Financial effect of the collateral	Credit risk exposure	Credit risk exposure before financial effect of the collateral	Financial effect of the collateral	Credit risk exposure
(in EUR million)									
Financial assets available for sale (excluding variable income securities)	16,362	0	16,362	10,782	0	10,782	140	0	140
Financial assets held for trading (excluding variable income securities)	1,365	0	1,365	679	0	679	0	0	0
Derivatives held for trading	7,856	1,939	5,917	6,281	2,003	4,278	0	0	0
Hedging derivatives	2,072	1,382	690	1,693	1,007	686	0	0	0
Financial assets held to maturity	1,917	0	1,917	1,886	0	1,886	136	0	136
Loans and advances (at amortised cost)	133,695	2,920	130,775	119,921	1,866	118,055	1,812	0	1,812
Loans commitments granted	1,249	0	1,249	723	0	723	0	0	0
Guarantee commitments granted	40,648	34,258	6,390	35,892	31,100	4,792	0	0	0
<b>TOTAL</b>	<b>205,164</b>	<b>40,499</b>	<b>164,665</b>	<b>177,857</b>	<b>35,976</b>	<b>141,881</b>	<b>2,088</b>	<b>0</b>	<b>2,088</b>

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 2.11 *Quality of financial assets*.

### c. 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.

	31/12/16				
	AAA to AA <sup>-</sup>	A <sup>+</sup> to BBB <sup>-</sup>	Non investment grade	Unrated	Total
(in EUR million)					
Financial assets available for sale (excluding variable income securities)	2,902	13,369	92	0	16,362
Financial assets held for trading (excluding variable income securities)	0	1,339	26	0	1,365
Derivatives held for trading	199	4,577	965	8	5,749
Hedging derivatives	14	656	20	0	690
Financial assets held to maturity	7	1,910	0	0	1,917
Loans and advances (at amortised cost)	54,905	60,019	13,883	417	129,224
Loans commitments granted	877	300	46	7	1,230
Guarantee commitments granted	183	6,056	139	5	6,383
<b>TOTAL</b>	<b>59,086</b>	<b>88,226</b>	<b>15,171</b>	<b>437</b>	<b>162,920</b>

	31/12/17				
	AAA to AA <sup>-</sup>	A <sup>+</sup> to BBB <sup>-</sup>	Non investment grade	Unrated	Total
(in EUR million)					
Financial assets available for sale (excluding variable income securities)	1,795	8,762	85	0	10,642
Financial assets held for trading (excluding variable income securities)	0	649	30	0	679
Derivatives held for trading	170	3,419	552	0	4,141
Hedging derivatives	8	647	31	0	686
Financial assets held to maturity	0	1,750	0	0	1,750
Loans and advances (at amortised cost)	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
<b>TOTAL</b>	<b>50,704</b>	<b>76,930</b>	<b>11,848</b>	<b>597</b>	<b>140,079</b>

#### d. Past-due and impaired financial assets

A financial asset is past due when the counterparty has failed to make a payment when contractually due. This is considered by contract. As an example, if a counterpart fails to pay the required

interest at due date, the entire loan is considered as past due. Financial assets are classified as impaired in the cases described in note 1.1 "Accounting policies and valuation methods".

(in EUR million)	31/12/16			Carrying amount of individually impaired financial assets, before deducting any impairment loss
	Past-due but not impaired financial assets			
	Less than 90 days	90 days to 180 days	Over 180 days	
Loans and advances (at amortised cost)	33	10	234	1,064
Other financial instruments	0	0	24	2
<b>TOTAL</b>	<b>33</b>	<b>10</b>	<b>258</b>	<b>1,065</b>

Past due outstandings are mainly related to local public sector.

(in EUR million)	31/12/17			Carrying amount of individually impaired financial assets, before deducting any impairment loss
	Past-due but not impaired financial assets			
	Less than 90 days	90 days to 180 days	Over 180 days	
Loans and advances (at amortised cost)	457	0	216	877
Other financial instruments	16	0	10	1
<b>TOTAL</b>	<b>473</b>	<b>0</b>	<b>225</b>	<b>878</b>

The evolution between 31 December 2016 and 31 December 2017 of past due amount in the time bucket "less than 90 days" is mainly due to the fact that the 31 December 2017 was a Sunday. The due amounts were paid early in the very early days of January.

#### 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 with the EBA's definition of Forbearance, only the 3rd case is considered as forbore 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 2017, total restructured loans related to financial difficulties of debtors was EUR 1,078 million (of which EUR 3 million for Dexia Israel) against EUR 956 million as at 31 December 2016.

#### e. Collateral and other credit enhancements obtained by taking possession of collateral during the period

There are no assets of this type in 2017 nor in 2016.

**f. Movements on impairment on financial assets**

	2016							
	As at 1 Jan.	Additions	Reversals <sup>(1)</sup>	Utilisation	Other adjustments <sup>(2)</sup>	As at 31 Dec.	Recoveries directly recognised in profit or loss	Charge-offs directly recognised in profit or loss
(in EUR million)								
Specific impairment	(604)	(138)	373	5	(1)	(365)		(104)
Customer loans and advances	(458)	(136)	275		(2)	(321)		(77)
Available for sale securities	(144)	(2)	98	5	1	(43)		(26)
Fixed revenue instruments	(98)		98					(26)
Variable revenue instruments	(48)	(2)		5	1	(43)		
Accruals and other assets	(2)					(2)		
Collective impairment	(422)	(96)	105		(4)	(416)		
Interbank loans and advances	(24)	(35)	21			(37)		
Customer loans and advances	(398)	(61)	84		(4)	(379)		
TOTAL	(1,026)	(234)	479	5	(5)	(781)		(104)

(1) The impairment on Hypo Alpe Adria Bank (HETA) was reversed in Customers loans and advances for an amount of EUR -99 million and in Available for sale securities for an amount of EUR -98 million. Losses have been recognised for respectively EUR 34 million and EUR 26 million.

(2) Other adjustments include notably the impact of changes in exchange rates during the year.

	2017						Recoveries directly recognised in profit or loss	Charge- offs directly recognised in profit or loss <sup>(1)</sup>
	As at 1 Jan.	Additions <sup>(1)</sup>	Reversals <sup>(1)</sup>	Utilisation	Other adjustments	As at 31 Dec.		
(in EUR million)								
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 millions and an amount of charge-offs has been recognised directly in profit or loss for CVEUR 60 millions; also, an additional provision of CVEUR 38 million was booked on the residual exposures on public entities related to the Commonwealth of Puerto Rico.

**g. 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.

**h. 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 <sup>(1)</sup>
		For the period	Cumulative	
(in EUR million)				
As at 31 December 2016	1,798	31	(173)	385
As at 31 December 2017	1,410	92	(81)	321

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

See also note 3.1 *Financial liabilities at fair value through profit or loss*.

**7.3. Collateral****a. Nature of the assets received as collateral if this collateral can be sold or repledged**

	31/12/16		31/12/17	
	Fair value of collateral held	Fair value of collateral sold or repledged	Fair value of collateral held	Fair value of collateral sold or repledged
(in EUR million)				
Debt securities	2,913	1,583	2,923	1,160
<b>TOTAL</b>	<b>2,913</b>	<b>1,583</b>	<b>2,923</b>	<b>1,160</b>

Collateral is obtained in connection with the repurchase agreement activities.

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

(in EUR million)	31/12/16	31/12/17
<b>Carrying amount of financial assets pledged as collateral for liabilities</b>	<b>97,436</b>	<b>83,977</b>

The amount of EUR 84 billion in 2017 and of EUR 97 billion in 2016 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, nor Dexia FP Holdings Inc.'s Guaranteed Investment Contracts (GICs). These assets are close to EUR 24 billion in 2017 (EUR 28 billion in 2016).

## 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

	31/12/16									
	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
(in EUR million)										
Cash and central banks	1,623	2,600	0	0	0	0	0			4,223
Financial assets at fair value through profit or loss	0	955	0	0	39	0	957	15,830		17,781
<i>of which Trading derivatives</i>							947	15,468		16,415
Hedging derivatives							656	6,175		6,830
Financial assets available for sale	0	871	579	2,936	8,894	50	261	3,020	(43)	16,568
Interbank loans and advances	803	3,842	327	1,004	838	0	24	702	(37)	7,503
Customer loans and advances	102	22,263	23,511	9,558	41,675	125	889	21,783	(700)	119,206
Fair value revaluation of portfolio hedge								1,750		1,750
Financial assets held to maturity	0	29	48	99	1,702	0	40		0	1,918
Accruals and other assets	0	145	79	0	0	36,661	0		(2)	36,884
<i>of which paid cash collateral</i>						36,632	0			36,632
<i>Subtotal financial assets used to calculate the gap</i>	<i>2,528</i>	<i>30,705</i>	<i>24,544</i>	<i>13,597</i>	<i>53,148</i>	<i>36,836</i>				
Non-financial assets						108		0	0	108
<b>TOTAL</b>	<b>2,528</b>	<b>30,705</b>	<b>24,544</b>	<b>13,597</b>	<b>53,148</b>	<b>36,945</b>	<b>2,826</b>	<b>49,260</b>	<b>(781)</b>	<b>212,771</b>

**b. Analysis of liabilities excluding shareholders' equity**

	31/12/16								
	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
(in EUR million)									
Central banks	35	625	30	0	0	0	0		690
Financial liabilities at fair value through profit and loss	0	1	0	141	1,258	0	912	16,363	18,676
<i>of which Trading derivatives</i>							900	15,978	16,878
Hedging derivatives							1,206	32,590	33,796
Interbank borrowings and deposits	120	36,977	1,613	783	674	0	54	18	40,238
Customer borrowings and deposits	549	4,829	3,698	1,276	362	0	24	41	10,778
Debt securities	16	23,948	22,386	29,313	17,601	0	671	4,589	98,524
Fair value revaluation of portfolio hedge								100	100
Subordinated debts	0	400	0	79	0	0	2	2	482
Accruals and other liabilities	8	332	50	33	42	3,981	0		4,446
<i>of which received cash collateral</i>						3,966	0		3,966
<i>Subtotal financial liabilities used to calculate the gap</i>	729	67,112	27,778	31,624	19,935	3,981			
Non-financial liabilities						467			467
<b>TOTAL</b>	<b>729</b>	<b>67,112</b>	<b>27,778</b>	<b>31,624</b>	<b>19,935</b>	<b>4,448</b>	<b>2,869</b>	<b>53,703</b>	<b>208,197</b>

**c. Balance-sheet sensitivity gap as at 31/12/2016**

	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity
(in EUR million)						
	1,799	(36,406)	(3,234)	(18,027)	33,213	32,855

Balance-sheet sensitivity gap is hedged through derivatives.



**a. Analysis of assets**

	31/12/17									
	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
(in EUR million)										
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
<i>of which Trading derivatives</i>							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
<i>of which paid cash collateral</i>						29,989	(1)			29,989
Non current assets held for sale	1,320	21	155	353	227	18	9	2	0	2,105
<i>Subtotal financial assets used to calculate the gap</i>	<i>2,219</i>	<i>33,518</i>	<i>22,448</i>	<i>8,998</i>	<i>42,848</i>	<i>30,051</i>				
Non-financial assets						87		0	0	87
<b>TOTAL</b>	<b>2,219</b>	<b>33,518</b>	<b>22,448</b>	<b>8,998</b>	<b>42,848</b>	<b>30,157</b>	<b>2,343</b>	<b>39,037</b>	<b>(630)</b>	<b>180,938</b>

**b. Analysis of liabilities excluding shareholders' equity**

	31/12/17								
	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
(in EUR million)									
Financial liabilities at fair value through profit and loss	0	95	0	75	906	0	717	12,400	14,193
<i>of which Trading derivatives</i>							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	0	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
<i>of which received cash collateral</i>						3,524	0		3,524
Liabilities included in disposal groups held for sale	1,106	146	196	324	112	1	10	0	1,894
<i>Subtotal financial liabilities used to calculate the gap</i>	1,700	52,602	17,717	35,691	18,643	3,529			
Non-financial liabilities						375			375
<b>TOTAL</b>	<b>1,700</b>	<b>52,602</b>	<b>17,717</b>	<b>35,691</b>	<b>18,643</b>	<b>3,905</b>	<b>2,287</b>	<b>42,991</b>	<b>175,536</b>

**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.

## 7.5 Sensitivity to interest rate risk and other market risks

We also refer to the chapter Risk Management of the Management Report.

### a. Treasury and Financial Markets

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

- The Value at Risk (VaR) is a measure of the expected potential loss with a 99% confidence interval and for a holding period of ten days. Dexia uses a number of VaR approaches to measure the market risk inherent in its portfolios and activities:

- Interest rate risk and basis risk are measured via a parametric VaR approach using a methodology based on the assumed normal distribution of yields relating to various risk factors;
- Credit spread risk (also known as specific interest rate risk) and other risks in the trading portfolio are measured using a historical VaR approach of which distribution is constructed by applying historical scenarios for the relevant risk factors associated with the current portfolio;
- Limits in terms of position, maturity, market and authorised products are put in place for each type of activity, ensuring consistency between overall value limits and operational thresholds used by front office.

Stress testing completes the risk management system by exploring a range of events outside the probability framework of VaR measurement techniques. The various adverse scenarios are regularly revised and updated. The results of consolidated Stress tests and the corresponding analysis are quarterly presented to the Risk Committee.

### Value at Risk of Market Activities

The table below shows the details of VaR used for market activities, excluding the bond portfolio. At the end of December 2017, total VaR consumption stood at EUR 3.3 million, compared with EUR 8.2 million at the end of 2016.

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 and sales of assets 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;
- basis risk BOR-OIS.

Value adjustments (credit value adjustment, debit value adjustment, funding value adjustment) and their variation are not integrated in the VaR model but integrated in the stress scenario.

### Value at Risk of Market Activities

(in EUR million)		2016		
VaR (10 days, 99 %)	By risk factor			Overall
	Interest rate and currency (Banking et Trading)	Spread (Trading)	Other risks	
Average	6.0	2.8	0.2	9.0
Period end	4.0	4.1	0.2	8.2
Maximum	10.4	4.1	0.2	14.0
Minimum	2.4	2.3	0.2	5.1

### Value at Risk of Market Activities

(in EUR million)		2017		
VaR (10 days, 99 %)	By risk factor			Overall
	Interest rate (Trading)	Spread (Trading)	Other risks	
Average	2.5	3.8	0.1	6.5
Period end	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

**b. Balance Sheet Management (BSM)**

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

The overall and partial sensitivities by time bucket are the main risk indicators used by the ALM risk committees, organised within the Management Board, 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.

**Sensitivity and limits of long term ALM**

(in EUR million)	2016	2017
Sensitivity	+ 8.8	+ 13.9
Limit	+/- 80	+/- 80

The sensitivity of long term ALM amounted to EUR + 13.9 million as at 31 December 2017 compared with EUR + 8.8 million as at

31 December 2016. It complies with the ALM strategy, which seeks to minimise the volatility of the income statement.

**c. Dexia bond portfolio exposure**

(in EUR billion)	2016	2017
Notional exposure	58	46

**Interest-rate sensitivity**

The interest-rate risk of the bond portfolio is hedged ( its purpose is solely the management of the credit spread); therefore it has a very limited sensitivity to change of interest rate.

**Credit spread sensitivity**

A major part of AFS bond portfolios was reclassified as Loans and Receivables. The AFS reserve of these securitites is insensitive to credit spread variation.

As for other bond portfolios, the credit spread sensitivity measures the sensitivity in fair value reserve of bond portfolio classified as AFS to a basis point credit-spread increase , in millions of EUR. This sensitivity is closely monitored.

(in EUR million)	2016	2017
Sensitivity	(13)	(10)

## 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

	31/12/16									
	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
(in EUR million)										
Cash and central banks	1,623	2,600	0	0	0	0	0			4,223
Financial assets at fair value through profit or loss	0	6	32	42	915	0	957	15,830		17,781
<i>of which Trading derivatives</i>							947	15,468		16,415
Hedging derivatives							656	6,175		6,830
Financial assets available for sale	0	298	514	2,919	9,549	50	261	3,020	(43)	16,568
Interbank loans and advances	803	462	864	3,239	1,445	0	24	702	(37)	7,503
Customer loans and advances	102	2,099	4,324	16,643	73,942	125	889	21,783	(700)	119,206
Fair value revaluation of portfolio hedge								1,750		1,750
Financial assets held to maturity	0	28	48	101	1,702	0	40		0	1,918
Accruals and other assets	0	145	79	0	0	36,661	0	0	(2)	36,884
<i>of which paid cash collateral</i>						36,632	0			36,632
<i>Subtotal financial assets used to calculate the gap</i>	<i>2,528</i>	<i>5,637</i>	<i>5,861</i>	<i>22,943</i>	<i>87,553</i>	<i>36,836</i>				
Non-financial assets						108		0	0	108
<b>TOTAL</b>	<b>2,528</b>	<b>5,637</b>	<b>5,861</b>	<b>22,943</b>	<b>87,553</b>	<b>36,945</b>	<b>2,826</b>	<b>49,260</b>	<b>(781)</b>	<b>212,771</b>

**b. Analysis of liabilities excluding shareholders' equity**

	31/12/16								
	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
(in EUR million)									
Central banks	35	625	30	0	0	0	0		690
Financial liabilities at fair value through profit and loss	0	0	4	88	1,309	0	912	16,363	18,676
<i>of which Trading derivatives</i>							900	15,978	16,878
Hedging derivatives							1,206	32,590	33,796
Interbank borrowings and deposits	119	18,220	3,392	14,766	3,668	0	54	18	40,238
Customer borrowings and deposits	549	3,935	4,426	1,273	531	0	24	41	10,778
Debt securities	0	15,467	25,650	33,413	18,734	0	671	4,589	98,524
Fair value revaluation of portfolio hedge								100	100
Subordinated debts	0	0	252	163	64	0	2	2	482
Accruals and other liabilities	8	332	50	33	42	3,981	0		4,446
<i>of which received cash collateral</i>						3,966	0		3,966
<i>Subtotal financial liabilities used to calculate the gap</i>	<i>712</i>	<i>38,579</i>	<i>33,805</i>	<i>49,735</i>	<i>24,346</i>	<i>3,981</i>			
Non-financial liabilities						467			467
<b>TOTAL</b>	<b>712</b>	<b>38,579</b>	<b>33,805</b>	<b>49,735</b>	<b>24,346</b>	<b>4,448</b>	<b>2,869</b>	<b>53,703</b>	<b>208,197</b>

Net liquidity gap as at 31/12/2016 (in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity
	1,816	(32,942)	(27,944)	(26,792)	63,207	32,855

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)	31/12/17									
	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
<i>of which Trading derivatives</i>							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
<i>of which paid cash collateral</i>						29,989	(1)			29,989
Non current assets held for sale	1,320	21	155	353	227	18	9	2	0	2,105
<i>Subtotal financial assets used to calculate the gap</i>	2,316	11,893	4,920	16,476	74,426	30,051				
Non-financial assets						87		0	0	87
<b>TOTAL</b>	<b>2,316</b>	<b>11,893</b>	<b>4,920</b>	<b>16,476</b>	<b>74,426</b>	<b>30,157</b>	<b>2,343</b>	<b>39,037</b>	<b>(630)</b>	<b>180,938</b>

**b. Analysis of liabilities excluding shareholders' equity**

	31/12/17								Total
	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	
(in EUR million)									
Financial liabilities at fair value through profit and loss	0	0	12	49	1,014	0	717	12,400	14,193
<i>of which Trading derivatives</i>							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 borrowings and deposits	314	4,786	597	169	504	0	13	22	6,404
Debt securities		10,204	20,296	37,624	17,380	0	619	3,531	89,654
Fair value revaluation of portfolio hedge								41	41
Subordinated debts			34	106	19	0	0	0	160
Accruals and other liabilities	1	297	66	13	36	3,529	0		3,941
<i>of which received cash collateral</i>						3,524	0		3,524
Liabilities included in disposal groups held for sale	1,106	146	196	324	112	1	10	0	1,894
<i>Subtotal financial liabilities used to calculate the gap</i>	<i>1,700</i>	<i>27,225</i>	<i>26,780</i>	<i>48,911</i>	<i>21,737</i>	<i>3,529</i>			
Non-financial liabilities						375			375
<b>TOTAL</b>	<b>1,700</b>	<b>27,225</b>	<b>26,780</b>	<b>48,911</b>	<b>21,737</b>	<b>3,905</b>	<b>2,287</b>	<b>42,991</b>	<b>175,536</b>

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.

**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 the chapter Risk Management of the Management Report.

Classification by original currency	31/12/16						Total
	EUR	GBP	Other EU currencies	U.S. dollars	JPY	Other currencies	
(in EUR million)							
Total assets	134,287	26,072	109	38,821	7,997	5,484	212,771
Total liabilities and shareholders' equity	136,188	24,793	31	41,674	5,748	4,337	212,771
<b>NET BALANCE SHEET POSITION</b>	<b>(1,901)</b>	<b>1,279</b>	<b>78</b>	<b>(2,853)</b>	<b>2,249</b>	<b>1,147</b>	<b>0</b>

Classification by original currency	31/12/17						Total
	EUR	GBP	Other EU currencies	U.S. dollars	JPY	Other currencies	
(in EUR million)							
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
<b>NET BALANCE SHEET POSITION</b>	<b>(1,366)</b>	<b>1,074</b>	<b>26</b>	<b>(2,637)</b>	<b>1,857</b>	<b>1,046</b>	<b>0</b>

## 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	Germany	Spain	Ireland	Italy	United States	Israel	Other	Total
As at 31 December 2016										
<b>NET BANKING INCOME</b>	<b>(7)</b>	<b>271</b>	<b>54</b>	<b>37</b>	<b>76</b>	<b>68</b>	<b>16</b>	<b>31</b>	<b>(40)</b>	<b>506</b>
As at 31 December 2017										
<b>NET BANKING INCOME</b>	<b>29</b>	<b>(16)</b>	<b>59</b>	<b>33</b>	<b>(103)</b>	<b>36</b>	<b>(62)</b>	<b>20</b>	<b>(60)</b>	<b>(64)</b>



# Report of the board of auditors to the shareholders' meeting of Dexia SA on the consolidated financial statements for the year ended 31 December 2017

In the context of the audit of the consolidated financial statements of Dexia SA ("the company") and its subsidiaries (jointly "the group"), we hereby submit our audit report of the board of auditors to you. This report includes our report on the consolidated financial statements together with our report on other legal, regulatory and professional requirements. These reports are one and indivisible.

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 10 consecutive periods. Mazars Réviseurs d'Entreprises / Bedrijfsrevisoren has audited the consolidated financial statements of Dexia SA for the first time during the financial year referred to in this report.

## Report on the audit of 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 2017, 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 180 938 million EUR and the consolidated income statement shows a consolidated net loss (group share) for the year then ended of 462 million EUR.

In our opinion, the consolidated financial statements of Dexia SA give a true and fair view of the group's net equity and financial position as of 31 December 2017 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). 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
<p><b>Description key audit matter 1 - The ability to continue as a going concern used for the preparation of the financial statements</b>  <i>(We refer to the note 1 in the notes to the Consolidated Financial Statements)</i></p> <p>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, revised by the Board of Directors of Dexia of 14 November 2017, is based amongst others on the following assumptions:</p> <ul style="list-style-type: none"> <li>• The business plan is based on observable market data at the end of 2012.</li> <li>• The underlying macro-economic assumptions 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.</li> <li>• The business plan assumes the preservation of the banking licenses of the different entities and of the credit rating of Dexia Credit Local.</li> <li>• The business 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.</li> <li>• Finally, the Group is also 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.</li> </ul> <p>As of today uncertainties remain about the realization of the business plan supporting the ability to continue as a going concern.</p> <p>Consequently, we consider the ability to continue as a going concern as a key audit matter.</p>	<p>We have examined the latest evaluation made by the Executive Committee and the Board of Directors regarding the going concern principle of Dexia 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:</p> <ul style="list-style-type: none"> <li>• We have examined the appropriateness of the overall underlying assumptions to the business plan, included in the latest available update at end of June 2017; based on our knowledge of the market, the activities of the Dexia Group and the applicable regulation and legislation.</li> <li>• We have assessed the elements on which the liquidity forecasts were estimated (including the realization of the existing assets and liabilities and the foreseen issuance of the different categories of borrowings in compliance with the funding policy of the Group) based on the underlying related documentation and on inquiries of management.</li> <li>• Finally, 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.</li> </ul> <p>We have inquired the Executive Committee and Board of Directors regarding the underlying assumptions to the business plan after the original period of 12 months. As mentioned in note 1.1, as of today, uncertainties exist besides the macro-economic factors, that are amongst other related to:</p> <ul style="list-style-type: none"> <li>• the conditions to access the Eurosystem financing facilities after 2021;</li> <li>• the renewal mechanism of the States' guarantee;</li> <li>• the future organization structure of the Dexia group.</li> </ul>

Key audit matters	How our audit addressed the key audit matters
<p><b>Description key audit matter 2 – Operational risks linked to the information systems</b>  <i>(We refer to the note 1.4 in the notes to the Consolidated Financial Statements.)</i></p> <p>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.</p> <p>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.</p> <p>In this 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 assessed as a key audit matter.</p>	<p>The assessment of the general IT controls used throughout the data-flow chain is a key step in our audit approach.</p> <p>The audit work performed with the assistance of our IT-specialists consisted more specifically of:</p> <ul style="list-style-type: none"> <li>• understanding the structure of the IT landscape and the processes and controls related to the production of the accounting and financial information;</li> <li>• monitoring of the follow-up by Dexia of the impacts of IT incidents that occurred during the accounting period and the related corrective actions implemented;</li> <li>• assessing (i) the operating effectiveness of general IT controls (access management to the applications and data, management of the IT operations) and (ii) the key automated controls on significant information systems (credit and market applications, accounting, consolidation, automated reconciliation,...);</li> <li>• performing audit specific procedures on manual journal entries: <ul style="list-style-type: none"> <li>– test the authorization process for processing manual journal entries;</li> <li>– review the supporting documentation justifying the nature and input of manual journal entries.</li> </ul> </li> </ul> <p>Following the outsourcing of the IT-function, we have assessed the design of the controls implemented by the management in the context of the outsourcing to the external service provider.</p> <p>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.</p>

Key audit matters	How our audit addressed the key audit matters
<p><b>Description key audit matter 3 – Identification and quantification of credit risk</b>  <i>(We refer to the notes 1.1.6.5, 1.1.22, 2.3, 2.4, 2.11, 3.7, 5.9 and 7.2 in the notes to the Consolidated Financial Statements.)</i></p> <p>Dexia is exposed to credit risk due to the inability of its clients to meet their financial obligations.</p> <p>Once there is an objective evidence of impairment, the risk is translated in the accounts by the recording of impairments on the related assets and by the recording of provisions on the related off-balance sheet commitments.</p> <p>Firstly, the Group determines specific impairments and provisions based on an estimation of the individual risk of non-recoverability and of the loss given default.</p> <p>In addition, for assets portfolios considered as sensitive, placed on watch list and on which no specific impairment is recognized, or for assets with an identified incurred sectorial risk, a collective impairment is estimated. The collective impairments are determined based on statistical models including professional judgment in the different stages of the calculation, especially for the definition of homogenous assets portfolios and for the determination of the risk parameters used in the impairment models.</p> <p>As at 31 December 2017, the gross outstanding amount of individually impaired financial assets amounts to 954 million euros, the specific and collective impairments amount to 629 million EUR and the cost of risk of the Group amounts to + 33 million euros.</p> <p>We have considered the identification and quantification of the credit risk as a key audit matter considering the substantial amount of impairment and provisions in the Consolidated Financial Statements, the significant impact of the judgements applied by the management both for the determination of the carrying amounts of the outstanding assets and for the determination of the recorded impairments.</p>	<p>We have reviewed the adequacy of the control process related to credit risk and tested the operating effectiveness of the key controls implemented by the management.</p> <p>The key controls are related to the identification and monitoring of loans and advances to be impaired and of already impaired or restructured loans, to the compliance with the accounting principles defined by Dexia for the estimation of impairments, to the quality and the traceability of the data, to the calculations and to the data-flow from the management and risk systems to the accounting system.</p> <p>For the performance of our audit work on the impairments and provisions at closing date, we have taken into consideration the materially significant single outstanding exposure and/or the most materially significant assets portfolios subject to professional judgment by Dexia during the determination of the impairments.</p> <p>The tests include amongst others:</p> <ul style="list-style-type: none"> <li>• the identification of single files with objective evidence of credit risk (so called « sensitive » files): for a selection of files deemed as sound by the management, we have assessed the level of credit risk;</li> <li>• the estimation of the specific individual impairments: we have assessed, for a sample, the assumptions retained by the management in the estimation of the recorded impairments;</li> <li>• the estimation of the collective impairments: we have assessed the relevance of methodologies used, more specifically the aggregation of assets with similar exposures, the relevance of the data used, and their correct application in the calculation.</li> </ul> <p>We have also examined the information presented in the notes to the Consolidated Financial Statements on the credit risk.</p>

Key audit matters	How our audit addressed the key audit matters
<p><b>Description key audit matter 4 – Identification and evaluation of the provisions for legal risk related to litigations</b></p> <p><i>(We refer to note 3.7 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 3.7 where the Board of Directors describes the main litigations that the Group Dexia is facing)</i></p>	
<p>In the context of its activities, the Dexia Group is involved in a certain number of legal risks and litigations.</p> <p>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, the results or the assets of the Group, are reflected in the Consolidated Financial Statements.</p> <p>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.</p> <p>Due to the nature of the current procedures against the Dexia Group and given the estimated character of the provisions, we consider the legal risk and litigations as a key audit matter.</p>	<p>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.</p> <p>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.</p> <p>Our audit work has focused on the following:</p> <ul style="list-style-type: none"> <li>• we have conducted discussion with the management and more specifically the Dexia Group's legal department;</li> <li>• 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;</li> <li>• we have assessed the principles and assumptions used by the Group to estimate the amount of provisions for litigations;</li> <li>• 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.</li> </ul> <p>Finally, we have examined the information in the note 3.7 of the Consolidated Financial Statements for provisions.</p>

Key audit matters	How our audit addressed the key audit matters
<p><b>Description key audit matter 5 – Valuation of the financial instruments classified in level 2 and level 3 in the fair value hierarchy</b>  <i>(We refer to the notes 1.1.6.3, 1.1.7.1 à 1.1.7.2, 2.1, 2.2, 3.1, 4.1, 5.3, and 7.1 in the notes to the Consolidated Financial Statements)</i></p> <p>In conducting its market activities, Dexia holds financial instruments as assets and liabilities classified in level 2 and 3 in the fair value hierarchy. These instruments are recorded at fair market value estimated by valuation models, for which the parameters are either unobservable nor can be corroborated directly with publicly available market data.</p> <p>The fair value calculated may be subject to additional value adjustments to take into account certain market, liquidity and counterparty risks, including for the derivatives:</p> <ul style="list-style-type: none"> <li>• Credit Value Adjustment (CVA): takes into account the risk of default of the counterparty;</li> <li>• Debit Value Adjustment (DVA): takes into account the own credit risk of Dexia;</li> <li>• Funding Value Adjustment (FVA): takes into account the financing costs for the non-collateralized derivatives;</li> <li>• and the use of an actualization curve based on a daily rate curve (OIS).</li> </ul> <p>The methods used by Dexia to value these financial instruments, as well as the estimation of the fair value adjustments, include therefore 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.</p> <p>These financial instruments classified in Level 2 and 3 in the fair value hierarchy in note 7.1 of the notes represent 130,892 million euros of the assets and 171,704 million euros of the liabilities of the consolidated balance of the Group as at 31 December 2017.</p> <p>Due to the substantial outstanding amounts and the use of professional judgment during the estimation of the fair value, we have assessed that the evaluation of the financial instruments classified in level 2 and 3 is a key audit matter.</p>	<p>We have assessed the adequacy of the key controls, defined and implemented by Dexia in the context of the valuation of financial instruments classified in level 2 and 3, and assessed the operational effectiveness, including those relating to:</p> <ul style="list-style-type: none"> <li>• the definition of the criteria's used for the classification of financial instruments in the fair value hierarchy as defined by IFRS 7;</li> <li>• the assessment of uncertainty risk linked to the use of valuation models: we have verified the existence of a cartography of the models and have assessed the documentation of the quantification of the uncertainty risk related to the use of these models, as well as the documentation of the priority criteria's applied in defining the periodicity of the review of the models;</li> <li>• the independent check of the valuation parameters: we have amongst others analyzed the relevance of the data sources used and we have assessed the hierarchy of these sources;</li> <li>• 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.</li> </ul> <p>We have relied on our valuation experts to perform, based on a sample basis:</p> <ul style="list-style-type: none"> <li>• an analysis of Dexia's own assessment of the uncertainty risk related to the use of valuation models;</li> <li>• an analysis of the relevance of the valuation parameters withheld;</li> <li>• the independent validation of valuation by using our own models.</li> </ul> <p>We have assessed the design of the tool used for the calculation and exchange of collaterals on financial derivatives and we have analyzed the main differences in valuations with the counterparties in order to comfort our assessment of the reliability of Dexia's valuation models.</p> <p>Finally, we have examined the information included in the notes to the Consolidated Financial Statements regarding the fair value hierarchy.</p>

Key audit matters	How our audit addressed the key audit matters
<p><b>Description key audit matter 6 – Documentation and effectiveness of the hedging relationships</b>  <i>(We refer to the notes 1.1.10, 1.1.11, 4.1, 5.3 in the notes to the Consolidated Financial Statements)</i></p> <p>In conducting its financing activities, Dexia has decided to cover the risk of change in fair value or change in cash-flows of its assets and liabilities by using hedging derivatives.</p> <p>The designation of a hedging relationship is defined by IAS 39 - Financial Instruments: Recognition and Measurement, in particular the following conditions must be met:</p> <ul style="list-style-type: none"> <li>• the documentation of the characteristics of the hedged item, of the hedging instrument, and of the type of hedging relationship designated;</li> <li>• the justification of the use of hedge accounting by the performance of efficiency quantitative testing supporting the hedging relationship.</li> </ul> <p>The outstanding hedging derivatives represent significant amounts (respectively 4,985 million euros and 27,858 million euros on the assets and liabilities at the end of the financial year and a net hedge accounting result of -131 million euros), therefore we consider the documentation and effectiveness of the hedging relationships as a key audit matter.</p>	<p>We have assessed the design of the internal control system and the governance related to the documentation and the effectiveness testing of the hedging relationships.</p> <p>In our audit work we have focused on:</p> <ul style="list-style-type: none"> <li>• the documentation of the hedging relationships;</li> <li>• the identification of the hedged portfolios and hedging instruments;</li> <li>• the process to perform the effectiveness tests supporting the hedging relationships designated over time;</li> <li>• the principles of derecognition of hedging relationships.</li> </ul> <p>Our work on the outstanding relationships at closing date focused on the following:</p> <ul style="list-style-type: none"> <li>• the reconciliation of the outstanding amounts per management accounting with the outstanding amounts per financial accounting;</li> <li>• the review of the effectiveness tests and the recording of the related inefficiency;</li> <li>• the analytical review of the variation of ineffectiveness over the year.</li> </ul> <p>We have involved our hedge accounting specialists to, based on a sample:</p> <ul style="list-style-type: none"> <li>• assess if the methodologies and the documentation of hedging relationships are compliant with IAS 39;</li> <li>• review the documentation related to the dealing of derivatives with the market when back-to-back hedging relationships are entered between Group entities.</li> </ul> <p>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.</p> <p>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</p>



## Responsibilities of the board of directors for 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 financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 financial statements.

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 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 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 auditor's report unless law or regulation precludes any public disclosure about the matter.

## Report on other legal, regulatory and professional 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.

### 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), 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, as well as to report on these matters.

### Aspects regarding the directors' report on the consolidated financial statements and other matters disclosed in this report

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 the period ended 31 December 2017 and it has

been established in accordance with the requirements of article 119 of the Companies Code.

In the context of our 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. We do not express any kind of assurance on the directors' report on the consolidated financial statements.

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. 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. Furthermore, we do not express any form of assurance conclusion on individual elements that have been disclosed in this non-financial information.

## Statements regarding independence

- Our audit firms and our networks have not performed any prohibited services and our audit firms and our networks have remained independent from the Group during the performance of our mandate.
- The fees for the additional non-audit services compatible with the audit of the consolidated financial statements, 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.

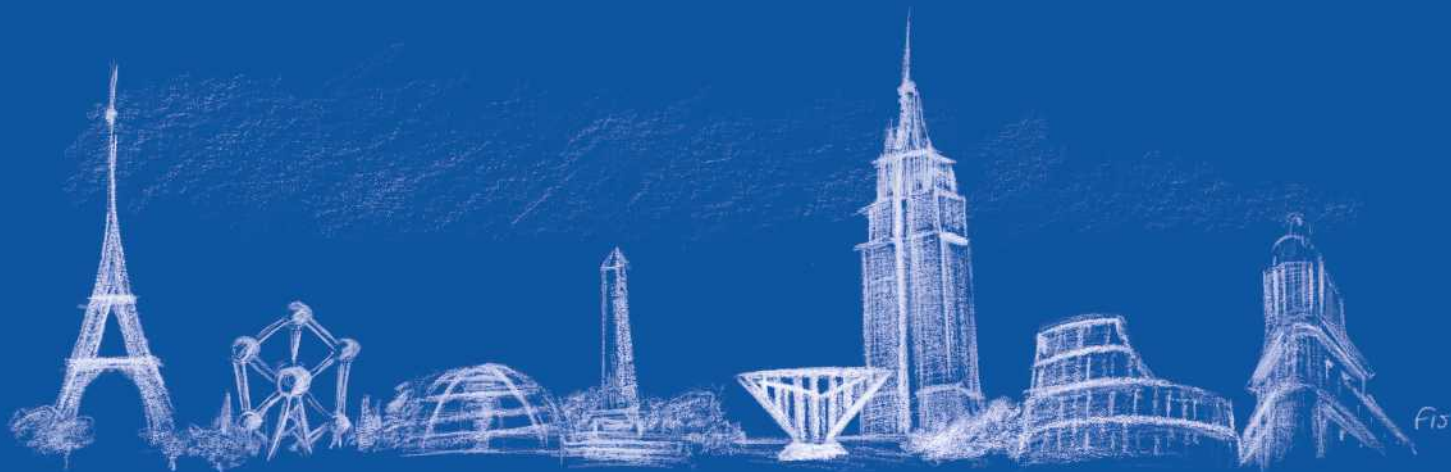
Zaventem and Bruxelles, 3 April 2018

The Board of Auditors

DELOITTE Réviseurs d'Entreprises  
SC s.f.d. SCRL / BV o.v.v.e. CVBA  
Represented by Yves Dehogne

Mazars Réviseurs d'Entreprises  
SCRL / CVBA  
Represented by Xavier Doyen

158	Balance sheet
159	Off-balance-sheet items
160	Income statement
161	Notes to the annual financial statements
178	Statutory auditors' report to the shareholders' meeting on the annual financial statements for the year ended 31 December 2017



# Annual financial statements as at 31 December 2017

# Balance sheet

(before income appropriation)

<b>ASSETS</b>		<b>31/12/2016</b>	<b>31/12/2017</b>
(in EUR)			
<b>FIXED ASSETS</b>		<b>2,345,700,167</b>	<b>2,345,636,359</b>
II.	Intangible fixed assets	308,685	303,915
III.	Tangible fixed assets	235,858	182,663
	B. Plant, machinery and equipment	13,206	8,212
	C. Furniture and vehicles	221,175	156,720
	E. Other tangible fixed assets	1,477	17,731
IV.	Financial fixed assets	2,345,155,624	2,345,149,781
	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	2,014,275	2,008,432
	1. Shares	2,001,000	2,001,000
	2. Amounts receivable and cash guarantees	13,275	7,432
<b>CURRENT ASSETS</b>		<b>777,729,054</b>	<b>774,277,976</b>
V.	Amounts receivable after more than one year	108,307,510	107,391,744
	B. Other amounts receivable	108,307,510	107,391,744
VII.	Amounts receivable within one year	7,531,179	6,728,684
	A. Trade debtors	2,747,379	2,899,460
	B. Other amounts receivable	4,783,800	3,829,224
VIII.	Current investments	642,973,044	642,428,823
	B. Other investments and deposits	642,973,044	642,428,823
IX.	Cash at bank and in hand	17,513,002	16,741,442
X.	Deferred charges and accrued income	1,404,319	987,283
<b>TOTAL ASSETS</b>		<b>3,123,429,221</b>	<b>3,119,914,335</b>

<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>31/12/2016</b>	<b>31/12/2017</b>
(in EUR)			
<b>EQUITY</b>		<b>2,984,331,902</b>	<b>2,994,884,720</b>
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	246,901,794	261,451,730
V. bis.	Profit (+) for the year <sup>(1)</sup>	14,549,936	10,552,818
<b>PROVISIONS AND DEFERRED TAXES</b>		<b>87,308,874</b>	<b>64,066,187</b>
VII.	A. Provisions for liabilities and charges	87,308,874	64,066,187
	2. Fiscal charges	4,000,000	4,000,000
	4. Other liabilities and charges	83,308,874	60,066,187
<b>AMOUNTS PAYABLE</b>		<b>51,788,445</b>	<b>60,963,428</b>
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	11,547,678	20,705,683
	C. Trade debts	3,583,475	2,578,095
	1. Suppliers	3,583,475	2,578,095
	E. Taxes, remuneration and social security	2,650,520	2,547,678
	1. Taxes	131,379	409,543
	2. Remuneration social security	2,519,141	2,138,135
	F. Other amounts payable	5,313,683	15,579,910
X.	Accrued charges and deferred income	452,767	469,745
<b>TOTAL LIABILITIES</b>		<b>3,123,429,221</b>	<b>3,119,914,335</b>

(1) See note 1 to the financial statements

## Off-balance-sheet items

(in EUR)	<b>31/12/2016</b>	<b>31/12/2017</b>
<b>Miscellaneous rights and commitments</b>		
Guarantee given by the French and Belgian States for the Financial Products portfolio <sup>(1)</sup>	PM	PM
Guarantees given by third parties on behalf of the company	302,973	302,973
Real guarantees given on own assets	150,324,996	150,308,453
Issuance of beneficiary participations	-	PM
Commitment to issue shares linked to stock options (exercise price)	338,055,080	109,291,375
Commitment towards Dexia Nederland NV	PM	PM
Commitments others <sup>(2)</sup>	PM	PM

(1) See note XXX of the consolidated financial statement.

(2) See note XXX Off-balance-sheet items - Commitments.

# Income Statement

(in EUR)		31/12/2016	31/12/2017
I.	Operating income	65,221,741	33,374,743
	D. Other operating income	13,267,029	13,933,557
	E. Non-recurring operating income	51,954,712	19,441,186
II.	Operating charges	(61,857,659)	(29,097,488)
	B. Services and other goods	(17,797,130)	(15,297,999)
	C. Remuneration, social security costs and pensions	(10,596,412)	(9,371,122)
	D. Depreciation of and amounts written off on formation expenses, intangible and tangible fixed assets	(629,105)	(338,124)
	F. Provisions for liabilities and charges : Increase (-)	(150,840)	(150,836)
	G. Other operating charges	(873,445)	(1,133,457)
	I. Non-recurring operating charges	(31,810,727)	(2,805,950)
III.	Operating income (+)	3,364,082	4,277,255
IV.	Financial income	20,694,570	6,562,121
	A. Recurring financial income	8,050,438	4,125,298
	2. Income from current assets	2,203,871	332,833
	3. Other financial income	5,846,567	3,792,465
	B. Non-recurring financial income	12,644,132	2,436,823
V.	Financial charges	(5,425,350)	(1,110,124)
	A. Recurring financial charges	(504,674)	(543,736)
	1. Debt charges	(185,181)	(41,250)
	3. Other financial charges	(319,493)	(502,486)
	B. Non-recurring financial charges	(4,920,676)	(566,388)
VI.	Profit for the period before taxes	18,633,302	9,729,252
VIII.	Income taxes	(4,083,366)	823,566
	A. Income taxes	(5,709,552)	(15,206)
	B. Adjustment of income taxes and write-back of tax provisions	1,626,186	838,772
IX.	Profit for the period	14,549,936	10,552,818
XI.	Profit to be appropriated	14,549,936	10,552,818
	Profit brought forward of the previous period	246,901,794	261,451,730
	Profit for the period to be appropriated	14,549,936	10,552,818
	<b>PROFIT TO BE APPROPRIATED</b>	<b>261,451,730</b>	<b>272,004,548</b>



# Notes to the annual financial statements

## 1. Presentation of the financial statements

Dexia presents its financial statements before appropriation. The 2017 financial year closed with a profit of EUR 10,6 million. The profit carried over from the previous period is EUR 261.4 million. As a result, the total profit to be appropriated is EUR 272 million.

The Directive 2013/34/EU of 26 June 2013 regarding the annual financial statements, the annual consolidated financial statements and the related reports has been transposed into Belgian legislation through the law and the royal decree of 18 December 2015 and is applicable on the financial years starting from 1 January 2016. This transposition, which is aligned to the IFRS principles that have removed the notion of exceptional results, implies a modification in the presentation of the income statement. As consequence, the exceptional results will no longer be presented under a separate heading, but by their nature, as non-recurring operational or non-recurring financial results. No distinction needs to be made between the term “exceptional” in the past financial statements and “non-recurring” in the present financial statements, the adjustment only materialises by the transfert of the exceptional results to the operating or financial non-recurring results so it's just a presentation change.

The non-recurring operational and financial results have been presented in detail in the notes to the annual accounts.

The termination benefits, reorganisation costs, and other amounts related to the sale of investments are included in the non-recurring operating income or expenses. This is also the case for compensation due or receivable under guarantees related to the sale of participations not held directly by Dexia. Provisions with an extraordinary nature, accrued or reversed in connection to the aforementioned expenses or income will also be included into the non-recurring operational results.

Otherwise, impairments on financial fixed and current assets as well as losses and gains on financial and current assets who are qualified as being exceptional will be included in the non-recurring financial income or expenses. The same approach is used for price fluctuations and for the compensation that is due or receivable related to the disposal of the fixed financial assets held directly by Dexia. The additions and reversals of the provisions with an exceptional nature related to the aforementioned balance posts will also be included in the non-recurring financial results.

## 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 and its 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 12 September 1983. 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 average 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 bookkeeping 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 acquisitions, 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.

Nevertheless, own shares acquired to be cancelled are valued at their acquisition price as they may only be destroyed with the approval of the Shareholders' Meeting.

**3.3. Liabilities****3.3.1. REVALUATION GAINS (ITEM III.)**

Shares and participating interests recorded as long-term investments may be revalued 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 Défense 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 establishment in Paris.

## CONTINUITY OF OPERATIONS (GOING CONCERN)

The consolidated financial statements of Dexia as at 31 December 2017 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions underlying the business plan for the resolution of the Dexia Group, listed below.

- The business plan was constructed from market data available at the end of September 2012; the underlying macroeconomic assumptions are reviewed as part of the half-yearly reviews of the overall plan.

In particular, the updates made on the basis of market data observable as at 30 June 2017 and validated by the Board of Directors of Dexia on 14 November 2017 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments to date, such as the final version of the CRD IV Directive and implementation of the IFRS 9 accounting standard from 1 January 2018, based on the assumptions known to date.

The business plan thus revised leads to adjustments in relation to the original plan. These result in a significant change to the trajectory of the Group's resolution as initially anticipated, in particular in terms of profitability, solvency and funding structure, but at this stage they do not raise questions as to the nature and the fundamentals of the resolution.

- The business plan assumes the maintenance of the banking licences of the various entities and the rating of Dexia Crédit Local.
- It moreover assumes that Dexia will retain a sound funding capacity, which relies in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on the Group's capacity to raise secured funding.

Since validation of the orderly resolution plan in December 2012, the Group's funding structure has benefited from an increase of market funding, both secured and guaranteed, at a cost considerably lower than anticipated in the business plan, and for larger volumes and longer maturities. This has enabled the Group, firstly, to exit the exceptional funding mechanisms put in place in 2012 and, secondly, to reduce to zero its reliance on central bank funding as at 31 December 2017<sup>(1)</sup>. Furthermore, Dexia implements a prudent liquidity management and maintains important liquidity reserves.

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

- It is in particular exposed to the evolution of accounting and prudential rules.
- The financial characteristics of Dexia since its entry in resolution do not allow it to ensure constant compliance with certain regulatory ratios over the resolution period.

The Dexia Group is also sensitive to the evolution of its macroeconomic environment and to market parameters, including exchange rates, interest rates and credit spreads, fluctuations of which are liable to impact the business plan. In particular, an unfavourable evolution of these

parameters over time may weigh on the Group's liquidity and its solvency position, by increasing the amount of cash collateral paid by Dexia to its derivatives counterparties or an impact on valuations of the financial assets and liabilities and OTC derivatives, fluctuations of which are booked in the income statement and are liable to result in a fluctuation of the AFS reserve and the level of the Group's regulatory capital.

- Finally, if market demand for government-guaranteed debt were to decline, Dexia may need to turn to more costly funding sources which would directly impact the profitability assumed in the original business plan.

## 4.1. Balance sheet total (before income appropriation)

The balance sheet total of EUR 3 119.9 million as at 31 December 2017 is stable when compared to EUR 3 123.4 million as at 31 December 2016.

## 4.2. Assets

### FIXED ASSETS

#### 4.2.1. INTANGIBLE FIXED ASSETS

Intangible fixed assets totalled EUR 0.3 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 transfer to the IFRS9 standard used for the presentation of the consolidated accounts in IFRS for the closings from the year 2018 on resulted in a disposal of tools, developments and IT platforms already fully depreciated, for an amount of EUR 12.5 million.

#### 4.2.2. TANGIBLE FIXED ASSETS

Tangible fixed assets which have a net book value of EUR 0.2 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 an 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 2017 and represents EUR 2 343.1 million as at 31 December 2017. 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 the total recognised impairment on DCL is

<sup>(1)</sup> 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.

maintained at EUR 14 953,8 million taking into account its profitability and the present value of future profits.

- 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.

## 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 2017, the group includes the following companies:

- DCL Evolution
- Dexia CLF Régions Bail
- Dexia Crédit Local
- Dexia Établissement Stable Paris
- Dexia Flobail
- Dexiarail
- Genebus Lease.

Dexia CLF Banque and CBXIA2 for their part, have been the subject of a universal transfer of heritage (TUP) to their sole shareholder DCL and this, respectively at the date of April 1st and May 1st 2017.

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 "tax deferred advances".

The total of tax deferred advances granted by the permanent establishment with contractual maturity after 31 December 2018 amounted to EUR 90.8 million on 31 December 2017.

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 16.6 million on 31 December 2017.

### 4.2.5. AMOUNTS RECEIVABLE WITHIN ONE YEAR

#### Trade debtors

The item "Trade debtors" (EUR 2.9 million) includes commercial receivables to be charged essential to subsidiaries from the Group (EUR 2.8 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 2017, the permanent establishment in Paris had a receivable of EUR 1.3 million to the French tax authorities as the lead company for French tax consolidation for the years 2012 to 2016.

In addition, Dexia must receive 0,9 million EUR early redemption of fixed income securities held in the portfolio.

At December 31, 2017, Dexia holds a debt towards the companies who took part in the tax consolidation in Luxembourg, this debt corresponds to the tax payable by those companies on their share of the consolidated tax result. The balance consists of various claims of insignificant amounts (EUR 1.6 million).

### 4.2.6. CURRENT INVESTMENTS

#### Other investments and deposits

Cash surpluses of Dexia were deposited at short term with DCL (EUR 539 million).

In addition, Dexia holds securities for which the acquisition price is EUR 103.4 million, and which were pledged to the insurance company White Rock Insurance PCC Ltd.

### 4.2.7. CASH AT BANK AND IN HAND

Available cash at banks and in hand totalled EUR 16.7 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 0.3 million) and also other general expenses (EUR 0.3 million).

The accrued income totalled EUR 0.1 million and consists of interests on tax deferred advances.

## 4.3. Shareholders' equity and liabilities

### SHAREHOLDERS' EQUITY

As at 31 December 2017, the holding company's shareholders' equity including 2017 net result before profit appropriation totalled EUR 2 994.9 million and is composed of the following items:

### 4.3.1. CAPITAL

The subscribed capital as at 31 December 2017 amounts to EUR 500 millions.

On 31 December 2016, the subscribed capital was represented by 1 948 984 class A shares and 28 947 368 preference shares of class B. On 31 December 2012, the Belgian and French States had subscribed to a EUR 5.5 bn capital increase, which was realised by the issuance of preference shares. The grant of preferential rights was aimed in particular at meeting the requirements of the European Commission with regard to state aid, which requires that any possible improvement of the financial situation of Dexia will primarily and principally benefit the French and Belgian States, as guarantors and shareholders (burden sharing). From a regulatory perspective, these preference shares qualify as Common Equity Tier 1 (CET1) under a transitional regime, which will expire on 31 December 2017. As a consequence, in order for Dexia to fulfil its prudential obligations regarding solvency and as required by the European Central Bank, Dexia has prepared a plan to convert those preference shares, observing the burden sharing constraints imposed by the European Commission. Thus, the 28 947 368 preference shares of class B were converted to 418 185 318 ordinary 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.

As at 31 December 2017, the share capital of Dexia is represented by 420 134 302 shares without indication of their nominal value.

### 4.3.2. SHARE PREMIUM ACCOUNT

The previous capital increases generally involved an issue premium so the total of these premiums amounts to EUR 1 900 million as at 31 December 2017.

### 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 17 May 2017, the profit of the year 2016 of EUR 14.5 million as well as the retained earnings of 246.9 million on 31 December 2016 contributed to the reported earnings, bringing the total retained earnings to 261.4 million on 31 December 2016.

### 4.3.4. NET RESULT FOR THE YEAR

The profit for 2017 is EUR 10.6 million. This profit arises from the recurrent financial results (EUR +3.6 million), non-recurring results (EUR + 18.5 million) from which are deducted the holding company's net operating expenses (EUR -11.5 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. 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 recorded in the accounts of Dexia. This adjustment was the subject of a dispute with the French tax authorities.

#### 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 provision of an amount of 0.2 million EUR in 2017. The total of those engagements amounts to 1.5 million EUR on 31 December 2017.

Concerning the exceptional provisions of EUR 1.5 million related to its former subsidiary Dexia Holdings Inc. which was sold to Dexia Credit Local, a full reversal of the balance was able to be operated in 2017 in the accounts of Dexia. Furthermore, the exceptional provisions related to the sale of other subsidiaries which amounted to EUR 44.5 million at December 31 2016, were subject to an utilization in 2017 for an amount of 3 million EUR giving rise to a total net provision of 41.5 million EUR at 31 December 2017.

The announcement of the dismantling of the Group in October 2011 resulted in an exceptional provision of EUR 55.5 million to cover the costs of severance payments. This provision amounting to EUR 19 million on 31 December 2016 has been the subject of a re-estimation of the risk giving rise to additional dotation of EUR 0.5 million and was used for the amount of EUR 2.4 million, resulting in EUR 17.1 million at 31 December 2017.

The exceptional provision of EUR 17 million set up in 2015 in order to cover the other risks has been the subject of a reversal given that the contractual maturity linked to the underlying risks came to an end.

Taking into account the above, the balance of provisions for other liabilities and charges at 31 December 2017 amounts to EUR 60.1 million compared to EUR 83.3 million at 31 December 2016.

## LIABILITIES

### 4.3.6. AMOUNTS PAYABLE WITHIN MORE THAN ONE YEAR

#### Subordinated loans

Dexia Funding Luxembourg (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 2017 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 1.2 million, including 0.2 million due to related companies.

#### Taxes, remuneration and social security

This item includes:

- the professional withholding tax and other taxes (EUR 0.4 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 2012 to 2016, the head of the Group is liable to pay to the subsidiaries the tax credits for a total amount of EUR 1.3 million. On the other hand, for the year 2017, the advances paid by the subsidiaries (EUR 0.7 million) are lower than the estimated tax which they are owed to the head of Group (EUR 0.8 million).

In addition, Dexia has debt in current account of EUR 10.8 million towards its subsidiary DCL.

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 0.3 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 2017, the number of options attributed to staff and management and not yet exercised stood at 11 085 308. Taking exercise prices into account, this operation generates an off-balance of EUR 109.3 million. Following the consolidation of Dexia shares on 4 March 2016, the general conditions accompanying the issue of the warrants have been adjusted and the number of warrants required to subscribe for a new share is now one thousand (1,000). This does not affect the number of options outstanding or the exercise price per warrant. In addition, it should be noted that the economic value of the warrants remains zero given the Dexia share price.

**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 Luxembourg 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.x. "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

In order to cover its commitments, Dexia has pledged bonds which it holds in its treasury portfolio (EUR 103.4 million) to White Rock Insurance Company PCC Ltd, as well as cash collateral placed on an account given into guarantee for this purpose given that this guarantee was made for an maximum overall amount of EUR 150 million.

Otherwise 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. at the conversion of the preference shares of class B into ordinary shares on 7 December 2017, profit CLR shares have been issued and granted to holders of class B shares. Each class B share gave right to a profit share CLR. 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 x.x. of....)

#### 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 13.9 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 13.2 million). Also included in this item are the recovery of costs from Group companies (0.7 million EUR) under purchasing contracts negotiated at the level of the holding company for the entire group

**Non-recurring operating income** (EUR 19.4 million) includes the reversal of the balance of the provision for guarantees related to the sale of Dexia Holdings Inc. following the resolution of any civil action brought in the United States against Financial Security Assurance Holdings Ltd (actually Assured Guaranty Municipal Holdings Inc.) and its subsidiary Financial Security Assurance Inc. (became since then Assured Guaranty Municipal Corp.) or subsidiaries of Dexia (EUR 1.5 million). The other non-recurring operational income (EUR 18 million) include the reversal of the provision for other risks as a result of the contractual maturity of the underlying risk (EUR 17 million) as well as the refund of damages supported as part of the dismantling (EUR 0.9 million)

**Services and other goods** amounting to EUR 17.8 million as at 31 December 2016 become EUR 15.3 million at 31 December 2017.

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 6.4 million in 2016 against EUR 5.1 million in 2017 following the permanent policy of cost restraint. The insurance costs, which are related to the D&O liability 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 1.2 million before taking into account a re-invoicing for an amount of EUR 0.4 million to other entities of the Group compared to a net charge of EUR 1.2 million in 2016, following 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 8.7 million compared to EUR 9.8 million in 2016.

Costs associated with the Group transformation plan are no more than EUR 0.3 million in 2017, compared to EUR 0.4 million in 2016.

The **cost of remunerations and social charges** declines from EUR 10.6 million in 2016 to EUR 9.4 million in 2017 in connection with the decrease in the number of staff from 68.6 FTEs in 2016 to 63.9 FTEs in 2017.

**Amortisation** amounts to EUR 0.3 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 1.1 million) consist of the annual contribution to the Single Resolution Fund (SRF) put in place by the European authorities in the context of the Single Supervisory Mechanism (SSM) (EUR 0.9 million), the annual contribution paid to the Financial Services Marketing Authority (FSMA) (EUR 0.1 million) as well as the other various taxes (0.1 million).

The **non-recurring operational costs** (EUR 2.8 million) (see note 4.19.) include in the subsection "provisions for exceptional risk and charges" (EUR -1.9 million) the utilization of the provision corresponding to severance costs provisioned following the announcement of the resolution plan in October 2011( EUR -2.4 million) partially compensated by a complementary dotation covering the same risk (EUR+0.5 million).

The subsection "other non-recurring operational expenses" (EUR 4.7 million) includes termination benefits and similar expenses 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 1.8 million).

#### 4.5.2. FINANCIAL RESULT

**Income from current assets** (EUR 0.3 million) include the interests generated by differed 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 3.88 million) are the result of capital gains realized on the repayment of fixed-income ins-

truments held by the issuers, thanks to the recovery of the financial markets since their acquisition in 2012.

The **non-recurring financial income** (EUR 2.4 million) (See note 4.19.) derived from a re-adjustment of the sales price of Dexia Banque Internationale à Luxembourg (today Banque Internationale à Luxembourg) sold on 5 October 2012, as a result of guarantees given and received .

**Other financial charges** (EUR 0.5 million) include a negative interest expense arising from short-term investments made with Dexia Crédit Local (EUR 0.4 million) and other costs (EUR 0.1 million) related to the listing of the Dexia share, the management fees for the securities and storage costs.

**Non-recurring financial charges** (EUR 0.6 million) represent indemnity paid in connection with the review of the sale price of a subsidiary (EUR 3.2 million) partially compensated by the use of the provision previously provided for this purpose (EUR -3 million) as well as the costs incurred in connection with the conversion of preferred shares and the issuance of profit shares in favour of the States (EUR 0.4 million).

#### 4.5.3. CORPORATE INCOME TAX

##### Adjustments of income taxes (EUR 0.8 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 0.8 million for the year 2017.

#### 4.5.4. PROFIT FOR THE FINANCIAL YEAR

Considering the above, the 2017 financial year closed with a profit of EUR 10.6 million.

### 4.6. Statement of intangible fixed assets (licences)

(in EUR)	Montants
<b>ACQUISITION VALUE AS AT 31/12/16</b>	<b>14,582,424</b>
Movements during the period:	
- Acquisitions, including produced fixed assets	286,327
- Sales and disposals	(12,501,648)
<b>ACQUISITION VALUE AS AT 31/12/17</b>	<b>2,367,103</b>
<b>DEPRECIATION AS AT 31/12/16</b>	<b>14,273,739</b>
Movements during the period:	
- Recorded	291,097
- Canceled due to sales and disposals	(12,501,648)
<b>DEPRECIATION AS AT 31/12/17</b>	<b>2,063,188</b>
<b>NET BOOK VALUE AS AT 31/12/17</b>	<b>303,915</b>

## 4.7. Statement of tangible fixed assets

(in EUR)	Plant, machinery and equipment	Furniture and vehicles	Other tangible fixed assets
<b>ACQUISITION VALUE AS AT 31/12/16</b>	<b>288,348</b>	<b>1,791,482</b>	<b>1,604,450</b>
Movements during the period:			
- Acquisitions	0	13,816	19,290
- Sales and disposals	0	(58,243)	(406,339)
<b>ACQUISITION VALUE AS AT 31/12/17</b>	<b>288,348</b>	<b>1,747,055</b>	<b>1,217,401</b>
<b>DEPRECIATION AS AT 31/12/16</b>	<b>275,142</b>	<b>1,570,307</b>	<b>1,602,973</b>
Movements during the period:			
- Recorded	4,994	38,997	3,036
- Canceled due to sales and disposals	0	(18,969)	(406,339)
<b>DEPRECIATION AS AT 31/12/17</b>	<b>280,136</b>	<b>1,590,335</b>	<b>1,199,670</b>
<b>NET BOOK VALUE AS AT 31/12/17</b>	<b>8,212</b>	<b>156,720</b>	<b>17,731</b>

## 4.8. Statement of financial fixed assets

### 1. PARTICIPATING INTERESTS AND SHARES

(in EUR)	1. Affiliated	2. Other enterprises
<b>ACQUISITION VALUE AS AT 31/12/16</b>	<b>17,296,965,606</b>	<b>2,001,000</b>
Movements during the period:		
- Acquisitions	0	0
<b>ACQUISITION VALUE AS AT 31/12/17</b>	<b>17,296,965,606</b>	<b>2,001,000</b>
	1. Affiliated	2. Other enterprises
<b>AMOUNTS WRITTEN DOWN AS AT 31/12/16</b>	<b>14,953,824,257</b>	<b>0</b>
Movements during the period:	0	0
<b>AMOUNTS WRITTEN DOWN AS AT 31/12/17</b>	<b>14,953,824,257</b>	<b>0</b>
<b>NET BOOK VALUE AS AT 31/12/17</b>	<b>2,343,141,349</b>	<b>2,001,000</b>

### 2. AMOUNTS RECEIVABLE

(in EUR)	1. Affiliated	2. Other enterprises
<b>NET BOOK VALUE AS AT 31/12/16</b>	<b>0</b>	<b>13,275</b>
Movements during the period:		
- Others	0	(5,843)
<b>NET BOOK VALUE AS AT 31/12/17</b>	<b>0</b>	<b>7,432</b>
<b>ACCUMULATED WRITING-OFF'S ON RECEIVABLES AS AT 31/12/17</b>	<b>0</b>	<b>0</b>

## 4.9. Share in the capital and other rights in other companies

List of enterprises in which the enterprise holds a participating interest, and other enterprises in which the enterprise holds rights in the 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 by			Information from the most recent period for which annual accounts are available			
	The enterprise (directly)	Subsidiaries		Primary financial statement	Monetary unit	Capital and reserve	Net result
	Number	%	%			(+) or (-) (in monetary unit)	
Dexia Crédit Local SA - FC <sup>(1)</sup> 1, passerelle des Reflets, Tour CBX - La Défense 2 F-92919 Paris							
Common shares	279,213,332	100.00	0.00	31/12/16	EUR	1,535,075,383	(216,780,649)
Dexia Nederland BV - FC <sup>(1)</sup> Parnassusweg 819 NL-1082 LZ Amsterdam							
Common shares	50,000	100.00	0.00	31/12/16	EUR	183,628,000	(54,135,000)
Dexiarail SA - FC <sup>(1)</sup> 1, passerelle des Reflets, Tour CBX - La Défense 2 F-92919 Paris							
Common shares	9,166	100.00	0.00	31/12/16	EUR	108,117	(4,721)
White Rock Insurance PCC Ltd - FC <sup>(1)</sup> Cell Dexia 913 Europort Gibraltar							
Common shares	1	100.00	0.00	31/12/16	EUR	1,144,420	(218,385)

(1) FC: Foreign Company

## 4.10. Investments : other investments and deposits

(in EUR)	Previous period	Period
<b>Fixed income</b>	<b>119,973,044</b>	<b>103,428,823</b>
<b>Fixed term deposits with credit institutions</b>	<b>523,000,000</b>	<b>539,000,000</b>
with a residual maturity or period of notice of:		
- More than one month but within one year	523,000,000	539,000,000

## 4.11. Deferred charges and accrued income (assets)

(in EUR)	Period
Deferred charges : Services and other goods	940,115
Accrued income: Interest	47,168

## 4.12. Statement of capital and shareholder's structure

### A. ISSUED CAPITAL

	Amounts (in EUR)	Number of shares
<b>ISSUED CAPITAL AS AT 31/12/16</b>	<b>500,000,000</b>	<b>30,896,352</b>
Changes during the period:	0	
Conversion of preference shares to ordinary shares		389,237,950
<b>ISSUED CAPITAL AS AT 31/12/17</b>	<b>500,000,000</b>	<b>420,134,302</b>

### B. STRUCTURE OF THE CAPITAL

	Amounts (in EUR)	Number of shares
Different categories of shares		
Shares without indication of nominal value, each representing 1/420,134,302 of the issued capital	500,000,000	420,134,302
- Registered shares		418,410,260
- Dematerialized shares		1,724,042

### C. OWN SHARES HELD BY:

	Amount of capital (in EUR)	Number of shares
- the company itself	0	0
- its direct subsidiaries	133	112

### D. COMMITMENTS TO ISSUE SHARES

	Amount of capital (in EUR)	Number of shares
<b>COMMITMENTS TO ISSUE SHARES</b>		
- Number of outstanding subscription rights		11,085,308
- Amount of capital to be issued	13,192	
- Corresponding maximum number of shares to be issued		11,085,308

### E. AMOUNT OF AUTHORIZED CAPITAL, NOT ISSUED

	Amounts (in EUR)
	500,000,000

### F. 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 itself	0
- Number of shares held by its subsidiaries	0

### G. STRUCTURE OF SHAREHOLDINGS OF THE ENTERPRISE AS AT THE ANNUAL BALANCING OF THE BOOKS, AS IT APPEARS FROM THE STATEMENT RECEIVED BY THE ENTERPRISE

Société de Prise de Participation de l'Etat (SPPE) for France : 46,81 %

Société Fédérale de Participations et d'investissement (SFPI) for Belgium : 52,78 %

### 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	17,108,086
Commitment as head of a fiscal consolidation (France)	1,458,101

### 4.14. Statements of debts

Analysis of debts with an original maturity of more than one year according to their residual maturity (in EUR)	Amounts payable after more than 5 years
<b>Financial debts</b>	<b>39,788,000</b>
Subordinated loans	39,788,000

### 4.15. Amounts payable for taxes, remuneration and social security

(in EUR)	Period
<b>Taxes</b>	
a) Expired taxes payable	0
b) Non-expired taxes payable	398,496
c) Estimated taxes payable	11,047
<b>Remuneration and social security</b>	
a) Amounts due to the National Office of Social Security	0
b) Other amounts payable relating to remuneration and social security	2,138,135

### 4.16. Accrued charges and deferred income (liabilities)

(in EUR)	Period
Accrued charges : rent	275,052
Accrued charges : taxes and rental charges	46,800
Accrued charges : interest	29,110
Accrued charges: insurance	14,390
Accrued income : recuperation of the database costs	104,393

## 4.17. Operating results

(in EUR)	Previous period	Period
<b>OPERATING INCOME</b>		
<b>Other operating income</b>		
Whereof: the total amount of operating subsidies and compensatory amounts obtained from public authorities	21,937	536
<b>OPERATING CHARGES</b>		
<b>Employees for which the enterprise has declared a DIMONA-statement or employees recorded in a general personnel register in Belgium</b>		
a) Total number at the closing date	67	62
b) Average number of employees in full-time equivalents	68,6	63,9
c) Number of actual working hours	96,611	88,089
<b>Personnel charges</b>		
a) Remuneration and direct social benefits	7,641,022	6,640,322
b) Employers' contribution for social security	2,135,896	1,910,134
c) Employers' premium for extra statutory insurance	637,618	660,999
d) Other personnel charges	174,883	152,558
e) Old-age and widow's pensions	6,993	7,109
<b>Provisions for liabilities and charges</b>		
Increases	150,840	150,836
<b>Other operating charges</b>		
Taxes related to operations	80,074	72,669
Other charges	793,371	1,060,788

## 4.18. Financial results

(in EUR)	Previous period	Period
<b>RECURRING FINANCIAL INCOME</b>		
<b>split of the other financial income</b>		
Exchange differences	5,273	1,220
Gain of refund of fixed-income securities	5,841,293	3,771,248
Other financial income	0	19,997
<b>RECURRING FINANCIAL CHARGES</b>		
<b>split of the other financial charges</b>		
Exchange differences	6,817	3,598
Service costs related to the management of actions	4,860	0
Charges related to the quotation of the Dexia share	60,432	21,276
Storage costs	26,844	26,483
Charges related to the regrouping of the Dexia share	199,992	0
Negative interests	0	432,172
Other financial charges	20,548	18,957

## 4.19. Non-recurring income and expenses ( size or degree of occurrence)

(in EUR)	Previous period	Period
<b>NON-RECURRING INCOME</b>	64,598,844	21,878,009
<b>Non-recurring operating income</b>	51,954,712	19,441,186
Write back of provisions for exceptional operational risks and charges	35,229,981	18,465,583
Other non-recurring operating income	16,724,731	975,603
<b>Non-recurring financial income</b>	12,644,132	2,436,823
Write back of provisions for exceptional financial risks and charges	9,600,000	0
Other non-recurring financial income	3,044,132	2,436,823
<b>NON-RECURRING CHARGES</b>	36,731,403	3,372,338
<b>Non-recurring operational charges</b>	31,810,727	2,805,950
Provisions for exceptional operating risks and charges: increase(+) / decrease (-)	26,420,651	(1,927,940)
Other non-recurring operational charges	5,390,076	4,733,890
<b>Non-recurring financial charges</b>	4,920,676	566,388
Provisions for exceptional financial risks and charges: increase (+) / decrease (-)	0	(3,000,000)
Losses on disposal of fixed assets	0	0
Other non-recurring financial charges	4,920,676	3,566,388

## 4.20. Income taxes

(in EUR)	Period
<b>Income taxes of the current period:</b>	<b>15,076</b>
a) Taxes and withholding taxes due or paid	15,076
<b>Income tax on the result of previous years</b>	<b>130</b>
a) Additional tax due or paid	130
b) Estimated additional taxes or taxes for which a provision was formed	0
<b>Principal sources of differences between the profit before taxes, mentioned in the accounts, and the estimated taxable profit</b>	
a) Fiscal integration in France (PM)	1
b) Provisions fiscally non-deductible	495,425
c) Write back of non-deductible provisions	(23,888,948)
d) Non tax deductible expenditure	3,608,959
e) Non-taxable income	(2,436,823)
<b>Impact of the non-recurring results in the taxes on the profit of the year</b>	
Are taxable : the non-recurring other exploitation charges and income (-3 758 287 EUR) and also the non-recurring other financial charges for an amount of -342 429 EUR.	4,100,716
<b>Status of deferred taxes:</b>	
a) Deferred taxes representing assets	4886,499,449
Accumulated tax losses deductible from future taxable profits	4702,704,552
Other deferred taxes representing assets	
- Surplus of revenues definitively taxed	183,430,547
- Surplus on depreciations	364,350

## 4.21. Value added tax and taxes borne by third parties

(in EUR)	Previous period	Period
<b>Total amount of value added tax charged during the period :</b>		
1. To the enterprise (deductible)	145,066	73,633
2. By the enterprise	453	4,034
<b>Amounts retained on behalf of third parties for:</b>		
1. Payroll withholding taxes	3,282,235	3,319,302
2. Withholding taxes on investment income	0	0

## 4.22. Rights and commitments not reflected in the balance sheet

(in EUR)	Period
<b>Guarantees given or irrevocably promised by the enterprise on its own assets collateral for own debts and liabilities of the company</b>	
Pledging of other assets - Book value of assets pledged	150,308,453

### Amount, nature and form of the litigations and other off-balance commitments given

See note 4.4.1

**If there is a supplementary retirement or survivor's pension plan in favour of the personnel or the executives of the enterprise, a brief description of such plan and of the measures taken by the enterprise to cover the resulting charges.**

Members of staff benefit from a supplementary retirement and survival pension scheme for which 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).

### Other rights and obligations not recognized in the balance sheet ( including those which can not be quantified)

(in EUR)	Period
Commitment to place EUR 548 millions in replacement of EUR 539 millions for three months, and this on 04.01.2018 at our subsidiary Dexia Crédit Local SA.	548,000,000



## 5. Relationships

### 5.1. Relationships with affiliated enterprises

(in EUR)	Affiliated enterprises	
	Previous Period	Period
<b>FINANCIAL FIXED ASSETS</b>	<b>2,343,141,349</b>	<b>2,343,141,349</b>
Participations	2,343,141,349	2,343,141,349
<b>AMOUNTS RECEIVABLE</b>	<b>92,007,500</b>	<b>93,610,101</b>
After one year	89,268,336	90,774,083
Within one year	2,739,164	2,836,018
<b>CURRENT INVESTMENTS</b>	<b>523,000,000</b>	<b>539,000,000</b>
Amounts receivable	523,000,000	539,000,000
<b>AMOUNTS PAYABLE</b>	<b>2,121,962</b>	<b>1,344,541</b>
Within one year	2,121,962	1,344,541
<b>FINANCIAL RESULTS</b>		
Income from current assets	362,361	222,489
Debt charges	51,645	0
Other financial charges	0	380,151

### 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 the enterprise without being associated therewith or other enterprises controlled by the mentioned persons without being associated therewith

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	2,349,722
To the former directors	0

### 5.4. Financial relationships with the affiliated auditors

Remuneration of the Statutory Auditors	350,000
Remuneration for exceptional tasks executed within the enterprise by the Statutory Auditor	
Other missions external to the audit	46,365

## 6. Declaration concerning the consolidated accounts

The enterprise has established and published the consolidated accounts and a consolidated financial statement.

## 7. Social report

Number of the joint commission of the company: 200

### 7.1. Statement of the persons employed in 2017

#### 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
<b>a. Average number of employees</b>			
full-time	57.1	36.3	20.8
part-time	10.6	6.3	4.3
<b>TOTAL FULL-TIME EQUIVALENTS (FTE)</b>	<b>63.9</b>	<b>39.5</b>	<b>24.4</b>
<b>b. Number of actual working hours</b>			
full-time	77,808	49,494	28,314
part-time	10,281	5,497	4,784
<b>TOTAL</b>	<b>88,089</b>	<b>54,991</b>	<b>33,098</b>
<b>c. Personnel charges</b>			
full-time	8,655,907	5,790,102	2,865,805
part-time	708,106	271,119	436,987
<b>TOTAL</b>	<b>9,364,013</b>	<b>6,061,221</b>	<b>3,302,792</b>
<b>2. During the previous year</b>	<b>P. Total</b>	<b>1P. Male</b>	<b>2P. Female</b>
Average number of employees in FTE	68.6	41.8	26.8
Number of actual working hours	96,611	57,595	39,016
Personnel charges	10,589,419	6,750,475	3,838,944
<b>3. As at the closing date of the period</b>	<b>Full-time</b>	<b>Part-time</b>	<b>Total of full-time equivalents</b>
<b>a. Number of employees recorded in the personnel register</b>	52	10	59.2
<b>b. By nature of the employment contract</b>			
Contract of indefinite period	52	10	59.2
<b>c. According to gender and by level of education</b>			
Male:	34	5	37.0
secondary education	3	0	3.0
higher non-university education	3	1	3.5
university education	28	4	30.5
Female:	18	5	22.2
secondary education	2	0	2.0
higher non-university education	2	4	5.4
university education	14	1	14.8
<b>d. By professional category</b>			
Management staff	8	1	8.8
Employees	44	9	50.4

## 7.2. TABLE OF PERSONNEL MOVEMENTS DURING THE PERIOD

### A. ENTRIES

	Full-time	Part-time	Total of full-time equivalents
<b>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</b>	9	1	9.8
<b>b. By nature of the employment contract</b>			
Contract for an indefinite period	8	1	8.8
Contract for an definite period	1	0	1.0

### B. DEPARTURES

	Full-Time	Part-time	Total of full-time equivalents
<b>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</b>	15	0	15.0
<b>b. By nature of the employment contract</b>			
Contract for an indefinite period	14	0	14.0
Contract for an definite period	1	0	1.0
<b>c. According to the reason for termination of the employment contract</b>			
Pension			
Dismissal	7	0	7.0
Other reason	8	0	8.0
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	0.00

## 7.3. 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	12	10
Number of training hours	196	203
Net costs for the enterprise (in EUR)	52 230	45 045
- whereof gross costs directly associated with the company (in EUR)	35 517	35 938
- of which contributions and payments to collective funds	16 713	9 107
<b>Total of less formal and informal continuing vocational training initiatives for workers paid by the employer</b>		
Number of employees involved	21	21
Number of training hours	566	195
Net costs for the enterprise (in EUR)	67 683	43 534

# Dexia SA

## Report of the board of auditors to the shareholders' meeting of Dexia SA on the annual accounts for the year ended 31 December 2017

In the context of the statutory audit of the financial statements of Dexia SA (the "company"), we hereby submit our report of the board of auditors. This report includes our report on the annual accounts together with our report on the other legal, regulatory and professional requirements. These reports are one and indivisible.

We were appointed in our capacity as statutory auditors 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 performed the statutory audit of the annual accounts of Dexia SA for 10 consecutive periods. Mazars Réviseurs d'Entreprises / Bedrijfsrevisoren has audited the annual accounts of Dexia SA for the first time during the financial year referred to in this report.

### Report on the audit of the financial statements

#### Unqualified opinion

We have audited the annual accounts of the company, which comprise the balance sheet as at 31 December 2017, the income statement for the year then ended, as well as the

explanatory notes. The annual accounts show total assets of 3 119 914 (000) EUR and the income statement shows a profit for the year then ended of 10 553 (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 2017 and of its results for the year then ended, in accordance with the financial reporting framework applicable in Belgium.

#### Basis for unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Responsibilities of the statutory auditors for the audit of the annual accounts" section of our report. We have complied with all the ethical requirements that are 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
<p><b>Description key audit matter 1 – The ability to continue as a going concern used for the preparation of the annual accounts</b> (We refer to appendix C6.20 of the financial statements.)</p> <p>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, revised by the Board of Directors of Dexia of 14 November 2017, is based amongst others on the following assumptions:</p> <ul style="list-style-type: none"> <li>• The business plan is based on observable market data at the end of 2012.</li> <li>• The underlying macro-economic assumptions 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.</li> <li>• The business plan assumes the preservation of the banking licenses of the different entities and of the credit rating of Dexia Credit Local.</li> <li>• The business 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.</li> <li>• Finally, the Group is also 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.</li> </ul> <p>As of today uncertainties remain about the realization of the business plan supporting the ability to continue as a going concern.</p> <p>Consequently, we consider the ability to continue as a going concern as a key audit matter.</p>	<p>We have examined the latest evaluation made by the Executive Committee and the Board of Directors regarding the going concern principle of Dexia SA for a period of twelve months starting at the closing date of the exercise, as well as the elements used to justify the evaluation and the underlying documentation.</p> <ul style="list-style-type: none"> <li>• We have examined the appropriateness of the overall underlying assumptions to the business plan, included in the latest available update at end of June 2017; based on our knowledge of the market, the activities of the Dexia Group and the applicable regulation and legislation.</li> <li>• We have assessed the elements on which the liquidity forecasts were estimated (including the realization of the existing assets and liabilities and the foreseen issuance of the different categories of borrowings in compliance with the funding policy of the Group) based on the underlying related documentation and on inquiries of management.</li> <li>• Finally, 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 annual accounts.</li> </ul> <p>We have inquired the Executive Committee and Board of Directors regarding the underlying assumptions to the business plan after the original period of twelve months. As mentioned in appendix C6.20, as of today, uncertainties exist besides the macro-economic factors, that are amongst other related to:</p> <ul style="list-style-type: none"> <li>• the conditions to access the Eurosystem financing facilities after 2021;</li> <li>• the renewal mechanism of the States' guarantee;</li> <li>• the future organization structure of the Dexia Group.</li> </ul>

Key audit matters	How our audit addressed the key audit matters
<p><b>Description key audit matter 2 – Identification and evaluation of the provisions for legal risk related to litigations</b>  <i>(We refer to appendices C6.8, C6.20 and C7 of the financial statements)</i></p> <p>In the context of its activities, Dexia SA is involved in a certain number of legal risks and litigations.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• we have conducted discussions with the management and more specifically the company's legal department;</li> <li>• 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;</li> <li>• we have assessed the principles and assumptions used by the company to estimate the amount of provisions for litigations;</li> <li>• 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.</li> </ul> <p>Finally, we have examined the information in the appendices of the annual accounts for provisions.</p>

Key audit matters	How our audit addressed the key audit matters
<b>Description key audit matter 3 – Valuation of participating interests</b> <i>(We refer to appendices C6.4.1, C6.5.1, C6.19 and C6.20 of the annual accounts)</i>	
<p>Participating interests, shown in the balance sheet at 31 December 2017 for a net amount of EUR 2,345 million, 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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>• obtain cash flow and operating forecasts and assess consistency with the forecast data from the last strategic plan;</li> <li>• check the consistency of the assumptions used at the closing date of the annual accounts;</li> <li>• compare the forecasts retained for previous periods with the corresponding achievements to assess the achievement of past objectives.</li> </ul>

### Responsibilities of the board of directors for 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 auditors 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.

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 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 auditor's report unless law or regulation precludes any public disclosure about the matter.

## Report on other legal, regulatory and professional requirements

### Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the director's report on the annual accounts, the statement on non-financial information included in the director's 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 to the International Standards on Auditing (ISA), our responsibility is to verify, in all material respects, the director's report on the annual accounts, the statement of non-financial information included in 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 matters disclosed in the annual accounts

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 the same year and it 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. We do not express any kind of assurance on the directors' report.

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. Furthermore, we do not express any form of assurance conclusion on individual elements that have been disclosed in this non-financial information.

### Statement related to 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 mandate.

### Statement regarding independence

- Our audit firms and our networks have not performed any prohibited services and our audit firms and networks 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, 3 April 2018  
The Board of Auditors

DELOITTE Réviseurs d'Entreprises  
SC s.f.d. SCRL  
Represented by Yves Dehogne

Mazars Réviseurs d'Entreprises  
SCRL  
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 2018

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](http://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 2017 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](http://www.dexia.com).*

### **Dexia**

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### **Website**

[www.dexia.com](http://www.dexia.com)

## **FINANCIAL CALENDAR**

### **Ordinary shareholders' meeting for the 2017 financial year**

16 May 2018

### **Results as at 30 June 2018**

7 September 2018

### **Results as at 31 December 2018**

26 February 2019

### **Ordinary shareholders' meeting for the 2018 financial year**

15 May 2019









