2016

Annual Report

DEXIA

Annual report 2016

Management report

Message from the Chairmen

Dear Shareholders,

The year 2016 saw the economic climate improve in the United States and in Europe. It was nonetheless marked by severe volatility on the financial markets, associated with major political events such as the vote in favour of the United Kingdom leaving the European Union, the presidential elections in the United States and the rejection of the constitutional reform put forward by Prime Minister Matteo Renzi in Italy.

In such a challenging macroeconomic environment, one of our first priorities was therefore to strengthen our governance. Over the year, we thoroughly reorganised the Management Board, with new appointments and an extension of its composition to the post of Chief Operating Officer, vital for continuity of the Group's operational transformation, within the framework of its orderly resolution.

With this widened and renewed governance we undertook an active policy to adapt the Group's structure to the challenge represented by managing an entity in resolution.

We successfully completed our project to centralise Dexia's activities in Spain and Portugal, and this was reflected on 1 November 2016 by the merger by absorption of Dexia Sabadell by Dexia Crédit Local and by the migration of the management of assets and derivatives to the Dexia Crédit Local platforms in Paris.

Furthermore, we broadened our considerations, started in 2015, on the opportunity to outsource certain of the Group's production activities. This initiative would enable us to respond more efficiently to the issues of our orderly resolution from the viewpoint of managing the decrease of our asset portfolio, controlling operating costs and mitigating risks.

In view of the numerous external uncertainties and the increased requirements of the supervisors, we continued to manage our solvency position in a proactive manner and in the second half-year we implemented measures to protect our regulatory capital. These measures, aligned in particular to the disposal of assets with a high risk weight and holdings directly deducted from capital, enabled us to strengthen our Total Capital ratio, which was 16.8% as at 31 December 2016.

We are posting a net income Group share of 353 million euros as at 31 December 2016. This positive result, formed mostly of exceptional elements, strengthens the Group solvency but cannot however constitute an extrapolation basis for the future. These are the figures for a bank in resolution which remains particularly sensitive to the volatility of the macroeconomic context.

Just like 2016, with its surprises and its unexpected events, 2017 will doubtless also be marked by economic, political and regulatory uncertainties. For us at Dexia, 2017 will be another very eventful year.

We will continue to prepare for the implementation of the IFRS 9 accounting standard on 1 January 2018. Based on the studies performed so far, the introduction of this new methodology could have a positive net impact on the Group capital as at 1 January 2018. That impact is likely to evolve however, particularly depending on market conditions and normative developments.

We will also be working to improve the management of our operational risk, due to a complex and often obsolete infrastructure. In this regard, ongoing consideration of the possibility to outsource certain Group production activities is vital.

At the same time, we will remain attentive to the evolution of the cost base and we will endeavour to improve our efficiency by simplifying our working methods, rationalising processes and reducing duplication. Measures to strengthen our solvency will also be implemented.

The conduct of the Group's resolution, against an uncertain background and in a constantly changing environment, is only possible with the daily commitment of all our staff members. We thank them most sincerely for their unfailing involvement and their dynamism in performing their tasks for Dexia.

We also rely on the support of the States, which guarantee part of our funding, and on our shareholders, but also on a close collaboration with the various stakeholders in the Group's resolution. We would like to express our gratitude to 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[1] is a European banking group managed under an orderly resolution plan since the end of 2011. The Belgian and French States own 94.4% of the Group since the end of 2012 when they made a EUR 5.5 billion capital injection reserved for them.

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[2], 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.

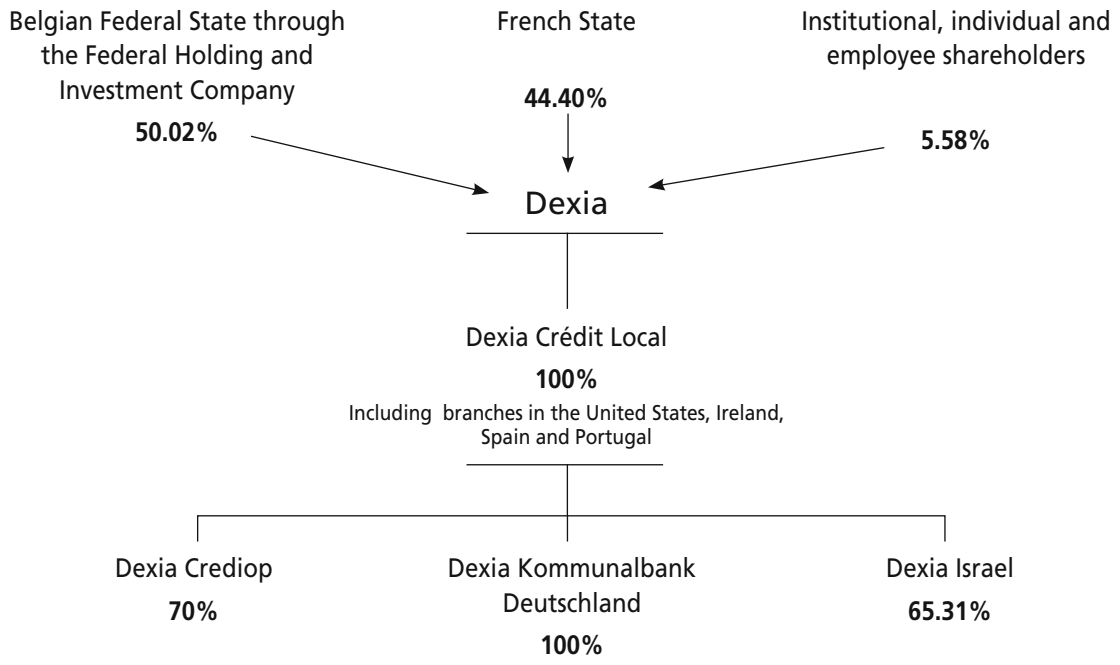
(1) Throughout this annual report, Dexia refers to Dexia SA/NV and Dexia Crédit Local refers to Dexia Crédit Local S.A.

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

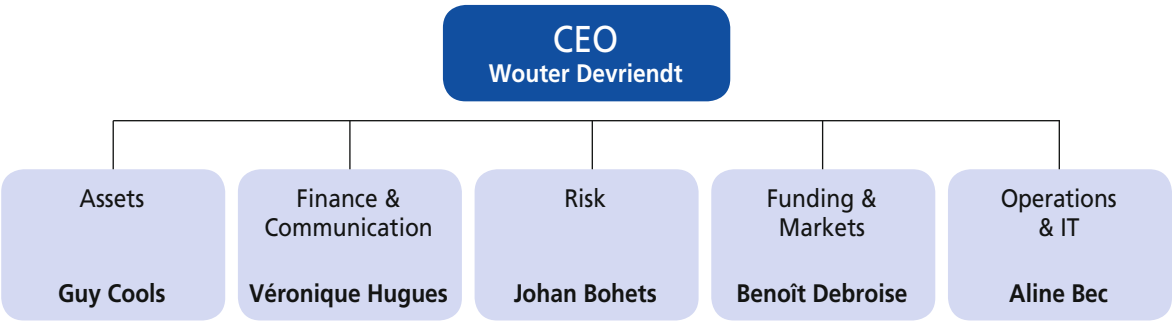
The Group has 1,134 members of staff as at 31 December 2016. Dexia Crédit Local is the Group's main operating entity and benefits from a funding guarantee, up to a maximum amount of EUR 85 billion, provided by the States of Belgium, France and Luxembourg, to allow for the execution of the orderly resolution 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. These entities also hold local banking licences. Dexia no longer has any commercial activities and is now solely focused on managing its assets in run-off, mainly public sector and sovereign assets, while protecting the interests of the Group's State shareholders and guarantors. To meet this objective, the Group has established three strategic goals:

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

Simplified structure



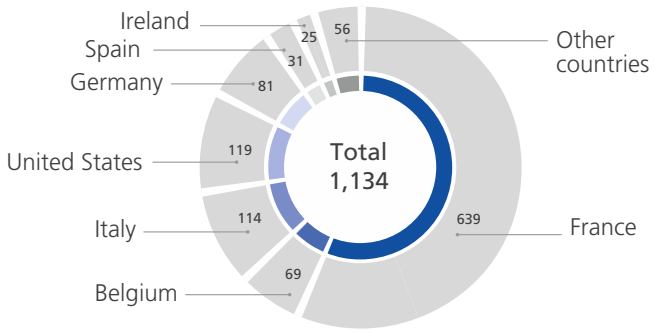
Management Board [1]



(1) As at 1 January 2017.

Key figures

MEMBERS OF STAFF AS AT 31 DECEMBER 2016



RESULTS (in EUR million)	2014	2015	2016
Net banking income	(247)	834	506
Costs	(381)	(470)	(407)
Gross operating income	(629)	364	99
Cost of risk	(62)	(174)	140
Net income Group share	(606)	163	353

BALANCE SHEET (in EUR billion)	31/12/2014	31/12/2015	31/12/2016
Balance sheet total	247.1	230.3	212.8

SOLVENCY (in EUR million except when indicated)	31/12/2014	31/12/2015	31/12/2016
Common equity Tier 1	8,754	8,180	7,011
Total capital	9,157	8,396	7,305
Risk-weighted assets	53,377	51,414	43,356
Common Equity Tier 1 ratio	16.4%	15.9%	16.2%
Total Capital ratio	17.2%	16.3%	16.8%

RATINGS AS AT 15 MARCH 2017	Long term	Outlook	Short term
Dexia Crédit Local			
Fitch	BBB+	Stable	F2
Moody's	Baa3	Stable	P-3
Moody's - Counterparty Risk (CR) Assessment	*Baa3(cr)*		*P-3(cr)*
Standard & Poor's	BBB	Stable	A-2
Dexia Crédit Local (guaranteed debt)			
Fitch	AA-	-	F1+
Moody's	Aa3	Stable	P-1
Standard & Poor's	AA	-	A-1+
Dexia Kommunalbank Deutschland (*Pfandbriefe*)			
Standard & Poor's	A	Stable	-

Highlights

Progress of the orderly resolution plan

The year 2016 was marked by historically low interest rates and high volatility on the financial markets, associated with political uncertainty. In this context, the Group strengthened its governance and continued to implement the orderly resolution plan, focussed on three strategic objectives:

- Maintenance of the Group's funding capacity
- Preservation of core capital and observance of solvency ratios
- Maintenance of operational continuity

Evolution of the Group's governance

Dexia Group governance underwent profound modification in 2016, with several appointments within the Management Boards of Dexia and Dexia Crédit Local.

On 18 May 2016, Wouter Devriendt was appointed by the annual shareholders' meeting of Dexia as Chief Executive Officer and Chairman of the Management Board of Dexia, replacing Karel De Boeck at the end of his term.

On 1 July 2016, Véronique Hugues replaced Pierre Vergnes, who resigned, as Executive Director and Chief Financial Officer of Dexia.

Guy Cools was appointed Head of the "Assets" division, replacing Claude Piret, whose mandate ended on 23 October 2016. Guy Cools then joined the Dexia Management Board on 1 January 2017.

Finally, in November 2016, Aline Bec was appointed Chief Operating Officer. Considering the importance of this function for the Group's operational continuity and transformation, the Board of Directors decided to integrate Aline Bec to the Management Board of Dexia on 1 January 2017.

As a result of these developments, as at 1 January 2017, the Management Board of Dexia is composed of six members:

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

As the governance of Dexia and Dexia Crédit Local is integrated, the members of the Management Board of Dexia are also members of the Management Board of Dexia Crédit Local.

More detailed information on Dexia's governance is provided in the chapter entitled "Declaration of corporate governance" in this annual report.

Prudent liquidity management combined with an evolution of the funding mix

Despite an uncertain market environment, the Dexia Group optimized favourably its funding structure during 2016.

The Group's funding volume was strongly reduced as a result of the decline in asset portfolios, amounting to EUR 146.5 billion at the end of 2016, against EUR 162.8 billion at the end of 2015, despite an erratic evolution and high average level of the net cash collateral posted by the Group to its derivatives counterparties.

The fall in the funding volume allowed the Group to reduce its reliance on funding subscribed with the European Central Bank, currently more costly than market funding. Total outstanding, at EUR 15.9 billion at the end of December 2015, was reduced to EUR 655 million as at 31 December 2016. As a consequence, the Group's funding structure underwent in-depth modification. Most of the Group's funding is now in the form of guaranteed funding and secured market funding, which represent 49% and 41% respectively of Group funding as at 31 December 2016.

More detailed information on Dexia Group funding in 2016 is provided in the chapter entitled "Information on capital and liquidity" in this annual report".

Preservation of regulatory capital and maintenance of solvency ratios

The preservation of regulatory capital and the maintenance of solvency ratios are key elements of the resolution of Dexia.

The progressive deduction of the AFS reserve from regulatory capital, in accordance with the calendar defined by the CRD IV Directive, and the increase of requirements applicable to Dexia in 2017 place significant pressure on the solvency ratios of Dexia and Dexia Crédit Local.

In 2016, Dexia therefore implemented capital relief measures in order to increase the capital buffer.

These measures were aligned to the targeted disposal of assets, allowing a reduction of the AFS reserve and a considerable reduction of risk-weighted assets. They also related to the sale of holdings directly deducted from equity.

Considering these elements, Dexia's "Common Equity Tier 1" ratio was 16.2% as at 31 December 2016 and the "Total Capital" ratio was 16.8%.

The "Common Equity Tier 1" ratio and the "Total Capital" ratio of Dexia Crédit Local were 13.1% and 13.4% respectively as at 31 December 2016.

As at 1 January 2017, the "Total Capital" ratio is estimated at 14.5% for Dexia and 11.3% for Dexia Crédit Local, therefore above the minimum requirement of 9.875% imposed by the European Central Bank.

In 2017, Dexia will continue to monitor the evolution of its regulatory capital in order to ensure its compliance with the capital requirements set by the European Central Bank. Similarly to 2016, targeted asset sales may be executed in order to improve the Group's solvency. The solvency in fact remains extremely sensitive to the evolution of external parameters such as credit spreads, interest rates or exchange rates.
More detailed information on Dexia Group solvency ratios is provided in the chapter entitled "Information on capital and liquidity" in this annual report".

Maintenance of operational continuity and simplification of the Group's structure

In order to successfully manage the run-off of its residual assets, the Dexia Group must maintain its operational continuity. This involves a simplification and a greater integration of its activities. Recourse to outsourcing may also be envisaged to ensure the durability of certain operational activities, while providing cost flexibility.

Centralisation of the activities of Dexia in Spain and Portugal

The Dexia Group has been reflecting for many years on various ways to simplify its operating model, to increase its resilience, to limit and to make its operating expenditure more flexible. This led to a project to centralise the activities until then carried out by Dexia Sabadell, a subsidiary of Dexia Crédit Local based in Madrid, and its branch in Lisbon.
This centralisation of activities became effective on 1 November 2016 with the cross-border merger by absorption of Dexia Crédit Local and its subsidiary Dexia Sabadell. At the same time, two new branches of Dexia Crédit Local, named DCL Sucursal en España and DCL Sucursal em Portugal commenced operation.
On that same date, management of the assets and derivatives of the Spanish and Portuguese entities was migrated to the management systems of Dexia Crédit Local in Paris.
This merger had retroactive accounting effect as at 1 January 2016.

Reflections on outsourcing certain Dexia production activities

Dexia also widened its reflections, originally engaged in 2015, on the opportunity to outsource some market activities to other production functions of the bank, particularly the activities of reporting, transactions processing and IT systems' maintenance and development. This initiative, which only concerns activities in France and Belgium, would enable Dexia to respond more effectively to the issues of its orderly resolution: a managed wind-down of its asset portfolio, an efficient monitoring of its operational expenditures and an appropriate risk management.

Delisting of the Dexia shares from the Paris and Luxembourg Stock Exchanges

With the aim to simplify the Group's operational functioning and in order to reduce operational costs, Dexia delisted its shares from the Paris and Luxembourg stock exchanges, as from 12 December 2016. Dexia shares remain listed on Euronext Brussels, the reference market.

Further simplification of the Group's structure

In line with its willingness to simplify the Group's structure, Dexia undertook the liquidation of Dexia Luxembourg (formerly Dexia LdG Banque) and Dexia Real Estate Capital Markets (DRECM). The termination of Dexia Luxembourg occurred on 29 December 2016, with no significant financial impact on a consolidated basis. The liquidation of DRECM was declared by the State of Delaware on 23 December 2016. It generated a non-significant charge, associated with the booking of cumulative translation adjustments in the Group's financial statements.

Other significant elements

Evolution of credit risk and the risk associated with structured loans

As at 31 December 2016, the Dexia Group credit portfolio remains of good quality overall with ~90% of exposures rated "investment grade".
The year 2016 was marked by the favourable evolution of cases in relation to Heta Asset Resolution AG in Austria, new developments regarding litigation in the Netherlands and the structured loans in France.
More detailed information is provided in the chapter entitled "Risk management" in this annual report".

Financial results

Notes regarding the Dexia Group's annual consolidated financial statements 2016

Going concern

The consolidated financial statements of Dexia as at 31 December 2016 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 observable at the end of September 2012; the underlying macroeconomic assumptions are reviewed as part of the semi-annual reviews of the overall plan.

In particular, the updates made on the basis of market data observable at the end of September 2012 and validated by the Board of Directors of Dexia on 16 November 2016 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments to date, such as the final version of the CRD IV Directive and implementation of the IFRS 9 accounting standard from 2018, based on the assumptions known to date.

The business plan 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, but at this stage 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.

From this perspective, 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 to reduce its reliance on central bank funding and to exit the exceptional funding mechanisms put in place in 2012. With its prudent liquidity management, Dexia has also established liquidity reserves with the aim of protecting itself against the increase in the amount of cash collateral[1] paid to its derivatives counterparties. These reserves amounted to EUR 18.2 billion as at 31 December 2016.

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 compliance with certain regulatory ratios over time.

The 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 (the sensitivity of the liquidity requirement to that parameter being in the order of EUR +1 billion for a decrease of 10 basis points in long-term rates) 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.

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

(1) Deposits or securities posted by Dexia to its counterparties as guarantee for interest rate or currency swaps.

Notes on accounting and regulatory developments

The IFRS 9 "Financial Instruments" accounting standard was published by the IASB in July 2014 and adopted by the European Union on 22 November 2016. It will enter into force as from 1 January 2018, replacing the IAS 39 "Financial Instruments – Recognition and Measurement" accounting standard. The impact of the IFRS 9 accounting standard on Dexia's financial statements and its accounting and regulatory capital is in the process of being analysed. At this stage and on the basis of preliminary assessments, Dexia expects the first application of IFRS 9 to have a positive total net impact on the Group's equity as at 1 January 2018. That impact is likely to evolve in relation to a certain number of factors including, in particular, market conditions, legal developments and interpretations which might occur or the calibration of provision models, particularly regarding the macroeconomic scenarios to be retained for that measurement.
More detailed information on the implementation of the IFRS 9 accounting standard is provided in Appendix 1.1.2.4 to the Consolidated Financial Statements in this annual report.

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 and 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) and the valuation of OTC derivatives, the own credit risk (OCR), the variation of the WISE portfolio (synthetic securitization of a portfolio of enhanced bonds);
- Non-recurring elements: elements of an exceptional nature, not liable to be regularly reproduced, in particular gains and losses on asset disposals, costs and gains associated with litigation, restructuring costs.

Analysis of the consolidated income statement

In 2016 Dexia posted a net income Group share of EUR +353 million.
Over the year, net banking income reached EUR +506 million. Of that amount, EUR +90 million is attributable to the impact of the valuation of derivatives on the basis of an OIS curve, the calculation of the CVA, the DVA and the FVA, as well as own credit risk.
Costs were EUR -407 million, including EUR -115 million in banking taxes and contributions to resolution funds.
Gross operating income reached EUR +99 million.
The cost of risk and net gains and losses on other assets positively contribute in an amount of EUR +194 million, including EUR +140 million for the cost of risk. In particular, it includes the reversal of the impairment for the Group's exposure to Heta Asset Resolution AG in an amount of EUR +136 million. Considering these elements, pre-tax income totalled EUR +293 million.
Over the year, the fiscal impact was positive at EUR +42 million. The net result from discontinued operations [(1)] was EUR +17 million, associated with the reversal of the impairment posted to cover risks related to guarantee calls following the disposal of commercial activities.
Net income attributable to minority interests was EUR -1 million leading to a net income Group share for 2016 of EUR +353 million.

CONSOLIDATED INCOME STATEMENT - ANC FORMAT

(in EUR million)	2015	2016
Net banking income	**834**	**506**
Operating expenses	(470)	(407)
Gross operating income	**364**	**99**
Cost of risk	(174)	140
Net gains or losses on other assets	14	54
Pre-tax income	**204**	**293**
Income tax	(18)	42
Net result from discontinued operations	(17)	17
Net income	**169**	**352**
Minority interests	6	(1)
Net income Group share	**163**	**353**

(1) The standard IFRS 5 "Non-current assets held for sale and discontinued operations" specifies that adjustments in the current period to amounts previously presented in discontinued operations and directly related to the disposal of a discontinued operation in a prior period shall be classified separately in discontinued operations.

Analytical presentation of the results for the period

The net income Group share of EUR +353 million consists of the following elements:
- EUR +142 million attributable to recurring elements;
- EUR +90 million associated with accounting volatility elements;
- EUR +122 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 THE 2016 ANNUAL RESULTS

(in EUR million)	Recurring elements	Accounting volatility elements	Non-recurring elements	Total
Net banking income	**386**	**90**	**30**	**506**
Operating expenses	(428)	0	21	(407)
Gross operating income	**(42)**	**90**	**51**	**99**
Cost of risk	140	0	0	140
Net gains or losses on other assets	0	0	54	54
Pre-tax income	**98**	**90**	**105**	**293**
Income tax	42	0	0	42
Net result from discontinued operations	0	0	17	17
Net income	**141**	**90**	**122**	**352**
Minority interests	(1)	0	0	(1)
Net income Group share	**142**	**90**	**122**	**353**

Recurring elements

The net income Group share generated by recurring elements was EUR +142 million for the year 2016.

Net banking income generated in 2016 amounted to EUR +386 million, and consisted of:
- Income from the asset portfolios, which reached EUR +603 million. In 2016, this income followed a downward trend from one quarter to the next. This reduction of earnings is consistent with the reduction of asset portfolios;
- Funding cost, which was EUR -583 million. The cost was stable from one quarter to the next. In 2016, the non-eligibility of the guaranteed debt issued by Dexia for the securities purchase programmes of the European Central Bank increased the cost of such funding. This trend has however been offset by the reduction in funding raised by the Group and by the evolution of the Group's funding mix, along with a reduction of funding with the European Central Bank, currently more expensive for the Group;
- Other income amounted to EUR +367 million. This income corresponds mainly to earnings from asset and liability management (ALM). In addition, the Group pursued an active management of current negative interests' situation, generating an income of EUR +144 million over the year.

Costs reached EUR -428 million. They included EUR -90 million in banking taxes and contributions to resolution funds, the majority booked in the first quarter, in application of the IFRIC 21 accounting standard. Excluding these taxes and contributions, operating costs were under control.

Driven by the reversal of the provision on Heta Asset Resolution AG, which amounted to EUR +136 million, the cost of risk had a positive impact of EUR +140 million.

The fiscal impact was positive, with EUR +43 million over the year. It mainly results from various intragroup asset transfers, linked to the centralisation of Group activities on its management systems in Paris.

Accounting volatility elements

Accounting volatility elements had a positive impact of EUR +90 million, mainly driven by the favourable evolution of the valuation of derivatives on the basis of an OIS curve, which more than offset the negative impact of DVA, own credit risk and the FVA. The market conditions were detrimental for the Group over the first half-year, following the referendum in favour of an exit of the United Kingdom from the European Union, before conditions improving in the second half-year.

Non-recurring elements

Non-recurring elements booked over the year 2016 stood at EUR +122 million and included in particular:
- Gains derived from active balance sheet management (EUR +55 million over the year);
- An extraordinary contribution to the Italian Resolution Fund of EUR -25 million paid by Dexia Crediop in the fourth quarter;
- Variations in provisions for litigation, in particular an additional provision for the share-leasing file in the Netherlands, offset by write-backs notably on the Bid Rigging file in the US and insurance indemnities from past files.
- A gain of EUR +50 million realised on the disposal of the CBX Tower in La Défense.

Evolution of the consolidated balance sheet

As at 31 December 2016, the Group's consolidated balance sheet total was EUR 212.8 billion, down by EUR -17.5 billion on 31 December 2015.

At a constant exchange rate, the annual decline in assets on the balance sheet is mainly associated with the reduction of the asset portfolio. At the end of 2016, the asset portfolio amounted to EUR 116.9 billion, down by EUR -15.3 billion since the end of 2015, including EUR -10.2 billion in natural amortisations and EUR -5 billion in disposals and early redemptions. In 2016, priorities with regard to asset disposals focussed on increasing solvency, by targeting heavily weighted assets, and on risk reduction.

On the liabilities side and at a constant exchange rate, the annual decline in the balance sheet is mainly reflected by a EUR -16.1 billion reduction of the market and central bank funding stock.

Over the year, the impact of foreign exchange fluctuations on the evolution of the balance sheet amounted to EUR +0.8 billion.

The balance sheet evolution was extremely contrasted over the year 2016, due to its sensitivity to interest and exchange rates. In the first quarter, the balance sheet total increased, reflecting lower interest rates which generated a rise of the amount of cash collateral paid by Dexia to its derivatives counterparties and of the valuation of elements at fair value, as well as the increase of the liquidity reserve placed with central banks. The trend reversed in the second and third quarters, with the reduction of the asset portfolios and outstandings placed with central banks more than offsetting the effect of lower interest rates. This downward trend accelerated in the fourth quarter, in a more favourable context to the Group, with a gradual rise of interest rates.

Risk management

Introduction

In 2016, in an environment still marked by severe uncertainty, the Risk activity line continued the active management of the credit risk run by Dexia. It paid particular attention to certain counterparties and certain sectors, particularly including the renewable energy and banking sectors.
One of the events which marked the year was the conclusion of an agreement between the Austrian State and the creditors of Heta Asset Resolution AG. The implementation of this agreement enabled the Group to reverse the EUR 136 million provision set aside in 2015, thus closing this chapter.
As a consequence, the cost of risk had a positive impact of EUR +140 million. Overall, the portfolio presents good credit quality, with 90% of Group exposures rated in the investment grade category.
In 2016, Dexia also continued its important work of assisting French local authorities to desensitize the outstanding of structured loans. This effort was reflected by a significant reduction of the amount of litigation with local authorities.
Finally, Dexia took part in the transparency exercise organised by the European Banking Authority (EBA), of which the elements and conclusions were published on 9 December 2016. This exercise aimed to provide detailed and harmonised information on the balance sheets and loan portfolios of the main European banks.

Governance

Dexia Group policy on risks is defined and supervised by the Board of Directors.
The role of the Risk activity line is to implement the Group's strategy on monitoring and managing risk and to put independent and integrated risk measures in place. The Risk activity line identifies and monitors the risks to which the Group is exposed. If necessary it proactively alerts the relevant committees and proposes corrective actions where applicable. In particular, the Risk activity line decides on the amount of provisions deemed necessary to cover the risks to which the Group is exposed.
In 2016, the Dexia Group developed the governance and operational organisation of the Risk activity line, to adapt it to its resolution management mandate:

- ·The activities of reporting and governance and risk systems management activities were grouped together in the same department, in order to harmonise the functions of production, operation and data analysis;
- A new department "Comprehensive risk assessment" was created.

Furthermore, the activities of "Risk Quantification & Pricing" and "Stress Tests" were grouped with the activities of model management, within the Credit Risk department, with the creation of a single department centralising all the model management functions, quantitative back-testing and Pillar 1 stress testing work. This new department coordinates the subjects of credit modelling (advanced models, provision calculations, cost of risk, risk-weighted assets and credit VaR forecasts) and enables better consistency to be achieved between hypotheses and the work carried out for such modelling.

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

The Risk Committee, created within the Dexia Board of Directors is responsible for monitoring aspects relating to risk strategy and 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. This committee includes the heads of the Assets, Funding and Markets, Finance, Risks and Secretariat General, Legal and Compliance activity lines. It can decide to submit larger credit files or those presenting a risk level considered sensitive to the Management Board, which remains the body taking the ultimate decision. For each file presented to the Transaction Committee, an independent analysis is performed, to reveal the main risk indicators, and a qualitative analysis of the transaction.
Depending on the nature of the portfolios or risks concerned, some of the powers of the Transaction Committee are delegated to the Assets and Risk activity lines, the task of which is manage Group assets over the period of the orderly resolution, whilst preserving and improving their value.
The Risk activity line establishes risk policies and submits its recommendations to the Management Board and to the Transaction Committee. It deals with the monitoring and operational management of Group risks under the supervision of those three committees.

More detailed information on the Risk Committee, the Management Board and the Transaction 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.
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.
The organisation and operation of the activity line also rely on certain 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.

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

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

Transformation risk

Monitoring transformation risk involves monitoring the risk of loss associated with the transformation of the banking portfolio (as well as liquidity risk). Transformation risk arises when assets are refinanced by resources presenting a different maturity, indexation or currency. It includes structural risks associated with the financing of holdings with equity in foreign currencies. Liquidity risk measures Dexia's ability to deal with its current and future cash requirements, both on a discounted basis and in the event of a deterioration of the Group's environment, on the basis of a range of stress scenarios.
Asset and liability management is supervised by the Dexia Management Board, which meets on a quarterly basis to determine the global risk framework, set limits, guarantee the consistency of strategy and delegate operational implementation to local ALM committees. The Management Board approves asset and liability management transactions, and centralises and coordinates the decision-taking process concerning liquidity matters. It is periodically informed of the Group's liquidity position and its evolution and its cover by short, medium and long-term resources. It ensures that liquidity targets are met and contributes to elaborating strategies for funding and asset deleveraging.
Within the Risk activity line, a dedicated ALM Risk team is in charge of defining the risk framework within which management may be placed in the hands of the Financial Strategy team within the Finance activity line, of validating the models used to actually manage risk, and of monitoring exposures and checking compliance with Group standards. ALM Risk also defines the stresses to be applied to the various risk factors, validates the risk management approach adopted by the Finance activity line 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, supported by the operational risk management function, ensuring good operational continuity management.

Risk Appetite Framework

The Risk Appetite Framework 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, qualifies the types of risk which Dexia is inclined to hold, minimise, attenuate or transfer in order to achieve its strategic objectives and to protect the interests of the States guarantors and shareholders. The Risk Appetite Framework considers Dexia's significant risks and relies on Dexia's strategy and capital forecasts.
Dexia's Risk Appetite Framework was approved by the Risk Committee and by the Board of Directors on 15 December 2016, on the opinion of the Management Board. It includes a declaration of risk appetite, qualitative and quantitative risk limits and an overview of the roles and responsibilities of those who supervise implementation and monitoring.
Dexia's Risk Appetite Framework is regularly monitored and subject to an annual review in order to integrate any new regulatory, strategic or operational development. A half-year consolidated schedule is presented by the Risk activity line 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 informing the Group's decision-taking bodies.

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 2016, Dexia's credit risk exposure was EUR 164.7 billion, compared with EUR 181.8 billion at the end of December 2015, a fall of 9%, associated with natural portfolio amortization as well as asset disposals and early redemptions.
Exposure was for EUR 78 billion in loans and EUR 74 billion in bonds.
Exposure is for the most part concentrated in the European Union (74%) and the United States (15%).

DEXIA GROUP EXPOSURE BY GEOGRAPHIC REGION

(in EUR million)	31/12/2015	31/12/2016
United States	28,753	23,897
Italy	27,244	25,512
France	26,617	25,484
United Kingdom	25,821	25,461
Germany	22,308	20,689
Spain	16,933	14,154
Japan	7,560	7,479
Portugal	4,193	3,905
Central and Eastern Europe	2,895	1,843
Canada	2,717	2,655
Belgium	2,204	2,035
Austria	1,575	1,118
Scandinavia	1,471	1,229
Hungary	946	275
South-East Asia	845	620
Central and South America	552	490
Switzerland	520	399
Netherlands	499	390
Turkey	496	367
Ireland	160	103
Greece	153	128
Luxembourg	125	85
Others	7,203	6,347
TOTAL	**181,792**	**164,665**

As at 31 December 2016 the majority of exposures remained concentrated on the local public sector [1] and sovereigns (70%), taking account of the historical activity of Dexia Crédit Local.

DEXIA GROUP EXPOSURE BY TYPE OF COUNTERPARTY

(in EUR million)	31/12/2015 pro forma	31/12/2016
Local public sector	94,520	89,298
Central governments	29,511	25,458
Financial institutions	24,687	20,123
Project finance	14,734	13,515
Corporate	8,463	7,607
ABS/MBS	8,039	6,600
Monolines	1,837	2,062
Individuals, SME, self-employed	2	2
TOTAL	**181,792**	**164,665**

The quality of the Dexia credit portfolio remained high, with 90% of exposures rated investment grade as at 31 December 2016.

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 *

	31/12/2015 pro forma	31/12/2016
AAA	16.5%	17.6%
AA	22.0%	18.5%
A	21.7%	24.2%
BBB	27.8%	29.4%
Non investment grade	10.7%	9.2%
D	1.1%	0.9%
No rating	0.2%	0.3%
TOTAL	**100%**	**100%**

** 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 2016 are presented in the following paragraphs.

GROUP SECTOR EXPOSURE TO CERTAIN COUNTRIES (AS AT 31 DECEMBER 2016)

(in EUR million)	Total	o/w local public sector	o/w project finance and corporate	o/w financial institutions	o/w ABS/ MBS	o/w sovereign exposures	o/w monolines
Italy	25,512	10,750	843	457	47	13,415	0
France	25,484	15,585	3,750	3,488	0	2,661	0
United Kingdom	25,461	11,952	9,620	1,854	1,575	63	397
United States	23,897	12,448	806	3,224	4,277	1,477	1,665
Germany	20,689	17,537	227	2,510	0	415	0
Spain	14,154	6,785	2,003	4,360	441	565	0
Japan	7,479	5,484	0	1,150	0	845	0
Portugal	3,905	1,794	115	16	85	1,894	0
Poland	1,161	2	0	0	0	1,159	0
Turkey	367	4	3	360	0	0	0
Hungary	275	2	0	0	0	273	0
Greece	128	50	78	0	0	0	0
Ireland	103	0	8	40	56	0	0

Dexia Group commitments on sovereigns

Dexia Group outstanding on sovereigns is concentrated essentially on Italy and to a lesser extent on France, Portugal, the United States and Poland.

During the year 2016, the recovery of growth continued in the majority of European countries as well as in the United States, despite uncertainties in relation to the robustness of the Chinese economy. In Europe however, the economic situation remains fragile and contrasting from one country to another.

Furthermore, the political context is marked by the vote in favour of the United Kingdom leaving the European Union and the rejection of the constitutional reform promoted by Prime Minister Matteo Renzi in Italy. The results of these consultations give rise to uncertainties and instability. The political agenda will remain heavy in Europe in 2017, with the holding of the presidential election in France and the regional elections in Germany.

In the United States, the election of Donald Trump as President could also cause problems, both in foreign policy and the economic choices and political orientations which might be followed, whilst the Federal Reserve has begun a move to increase interest rates and to tighten monetary policy.

In Japan, despite the fiscal and monetary measures implemented, inflation and growth remain low. The prospects of any noteworthy improvement in the near future seem limited.

(1) In order to achieve a consistency of internal reporting, changes have been made in the classification of exposures: two Italian funds previously classified as financial institutions have been reclassified in the category of Local Public Sector in view of their specific activity, in a total amount of EUR 105 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, Germany, Spain, the United Kingdom) and in North America.

France

General context

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.

Update on structured loans

In 2016, Dexia continued its voluntary action to assist French local authorities, in order to reduce its outstanding on sensitive structured loans. In line with the policy implemented since 2013, the Group has offered all of its customers opportunities to switch definitively to a fixed rate.

The phase of subscription to aid provided by the support fund for the local authority and hospital sector to those which had subscribed to sensitive structured loans ended in July 2016. All the borrowers which held off-charter contracts[1] on the balance sheet of Dexia Crédit Local accepted the assistance offer and signed a transactional agreement with the Group, sent to the State, ending any litigation now or in the future. These agreements cover all the loans to public customers the maturities of which had deteriorated.

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

As a consequence, the outstanding of sensitive structured loans on the Dexia balance sheet was EUR 651 million as at 31 December 2016, down by 33% on the end of 2015 and 67% on May 2012.

The number of cases in which Dexia Crédit Local is involved has also fallen sharply, from 147 at the end of 2015 to 51 as at 31 December 2016.

More detailed information on the evolution of litigation associated with Dexia's sensitive structured loans Dexia is provided in the section "Litigation" at the end of this chapter.

Spain

The State gave huge support to the regions and municipalities through several support funds. The aim of these funds was not only to assist beneficiaries to honour their commitments with their banks and their suppliers, via the grant of financial facilities, but also to force them to improve their management with the introduction of adjustment and recovery plans. These mechanisms were completed by the adoption of principles of financial caution which imposed very precise rules on authorities regarding the margins on new funding or restructuring operations. The use of derivatives is now tightly controlled and certain covenants are restricted or even forbidden. The measures of support to authorities are bearing fruit, enabling their financial situation to be improved. Furthermore, there has been no payment default by the regions and the 2016 financial year should close with a deficit of -0.8% of GDP, slightly above the target of -0.7%, but better than the result in 2015 (-1.74%). Nonetheless the indebtedness remains severe.

(1) By reference to the Gissler charter: classification of types of contracts by their risk level as established several years ago on the request of the French government.

United States

The financial situation of the Commonwealth of Puerto Rico continued to deteriorate. As a consequence, in May 2016 the government declared a state of emergency and a moratorium on its own debt as well as some of the debt of its public enterprises until February 2017 at a minimum. As a result, arrears were observed on the general debt of the Commonwealth and on the debt of certain of its satellites.

Furthermore, within the framework of the PROMESA Law, aimed at the economic revival of the island, a federal supervisory board appointed in 2016 is responsible for balancing the budgets, authorising the issue of debt and restructuring.

The Dexia Group's exposure was limited to the public enterprises linked to the Commonwealth of Puerto Rico and was EUR 431 million as at 31 December 2016, of which 95% is covered by good quality credit enhancement. To date, these exposures have not posted any delay in payment.

The provisions set aside by Dexia on Puerto Rico and its public enterprises amounted to EUR 43 million (USD 46 million) as at 31 December 2016. They cover outstanding without good quality credit enhancement and the possibility of accelerating payments in the event of a guarantee call, which would generate costs for unwinding hedge instruments.

Dexia also paid particular attention to cases in financial difficulties, in particular including the Chicago Board of Education (CBOE), in view of a very high debt level and an under-financing of pension funds, amplified by the ongoing fall of levels of student registrations. The credit profile of the CBOE was not improved in 2016 in particular considering increased liquidity constraints and increasingly costly refinancing conditions. Dexia was exposed to the CBOE in an amount of EUR 489 million at the end of December 2016.

Dexia Group commitments on project finance and corporates

The project finance and corporate loans portfolio amounted to EUR 21.1 billion as at 31 December 2016, down 9% on the end of 2015. Beyond natural amortisations and early redemptions, this portfolio contracted on the one hand under the effect of the weakening pound sterling since the British vote in favour leaving the European Union (-14% in 2016), which reduces the counter-value in euro of British exposures, and on the other hand following several opportunistic sales of the bonds of major French and Italian corporates.

This portfolio consists 64% of project finance[2], the balance being in finance to large corporates, such as financing for acquisitions, commercial transactions or corporate bonds. Dexia is following a policy of disengagement vis-à-vis its counterparties.

Certain projects are monitored very carefully. In particular, changes to the Spanish regulatory framework concerning renewable energies adopted on 16 June 2014, providing for the revision of tariffs for the purchase of electricity, an unfavourable impact on a part of the portfolio of renewables projects in Spain, mainly photovoltaic projects. Management of the consequences of those regulatory changes continues. Several projects have already been restructured and negotiations are in progress on others. Considering this situation, the Group

(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.

set aside specific provisions on certain projects, leading at the same time to a reduction of the sector provision set aside in 2014 to cover this risk.
The portfolio is of good quality (73% of the project finance portfolio and 95% of the corporate portfolio are rated investment grade)
As at 31 December 2016, the British project finance and corporate portfolio reached EUR 9.6 billion (46% of the portfolio), composed 56% of corporates, essentially Utilities, and 44% of project finance, mostly within the framework of public private partnerships (PPP). This portfolio is of extremely good quality, with 97% of the exposure rated investment grade. Considering the protective regulatory framework from which Utilities benefit and the structuring of PPP, no significant impact on this portfolio arose following the vote in favour of the United Kingdom leaving the European Union.
The Group's direct exposure to the oil sector, weakened by the fall of prices, amounted to EUR 265 million. It mainly involves project finance and more marginally first-class corporates. Some individual files have been provisioned.

Dexia Group commitments on ABS

As at 31 December 2016, Dexia's ABS portfolio amounted to EUR 6.4 billion, down EUR 1.2 billion on the end of 2015, due to the redemption and the sale of several positions.
This portfolio consists of EUR 4.1 billion in student loans, guaranteed by the US Federal State, which present a rather long amortisation profile and a limited expected loss guarantee. The balance is principally in residential mortgage backed securities (RMBS), representing an amount of EUR 0.7 billion, of which EUR 0.4 billion in Spain.
The quality of the ABS portfolio remains stable overall, with 97% of the portfolio rated investment grade at the end of December 2016, almost all of the tranches in which Dexia invested being senior level.

Dexia Group commitments on financial institutions

Dexia commitments on financial institutions amounted to EUR 20.1 billion as at 31 December 2016, down EUR 4.7 billion since December 2015.
The commitments consist of 70% bonds, covered bonds and repo operations with financial institutions. The balance consists of exposures associated with loans to financial institutions and derivatives.
Dexia exposures are concentrated 16% in the United States and 72% in Europe, principally in Spain (22%), France (17%), Germany (12%) and the United Kingdom (9%).
The portfolio's credit quality remained stable overall in 2016.
The year 2016 saw the conclusion of an agreement between the Austrian State and the creditors of Heta Asset Resolution AG. To recall, in 2015, the Austrian financial markets supervisory authority adopted a provisional moratorium on a substantial portion of the debt (capital and interest) of Heta Asset Resolution AG. Furthermore, the debt had been partially cancelled within the framework of a bail-in imposed by the Austrian regulator on 10 April 2016. Dexia had booked an impairment of EUR 197 million, corresponding to 44% of its exposure of EUR 395 million to Heta Asset Resolution AG and 5% of that amount to cover its exposure to associated derivatives.
After a long period of discussions between the Republic of Austria and the pool of creditors of Heta Asset Resolution AG, around Dexia Kommunalbank Deutschland, the parties agreed heads of agreement on 18 May 2016. These relied on the principle of an exchange of securities issued by Heta Asset Resolution AG against zero-coupon bonds with a maturity of approximately 13.5 years, issued by the Land of Carinthia through a specific vehicle and benefiting from the explicit guarantee of the Republic of Austria.
On 4 October 2016, the Austrian Minister of Finance announced that a majority of the creditors had accepted the proposed agreement, enabling it to be implemented. The exchange of securities took place during the month of October. Dexia then sold the securities received on the market.
The positive net impact of the implementation of the agreement, booked in the third quarter, corresponding to a reversal of the impairments on the basis of the conditions provided in the exchange of securities, is EUR 136 million in cost of risk, to which is added EUR 3 million in net banking income. The gain from the sale, in a not insignificant amount, was booked in the fourth quarter 2016. This good management enabled the impact to be reduced from 50% to 10%.
Dexia no longer has any exposure to Heta Asset Resolution AG.
Despite an increase in the solvency levels of the European banking sector, the situation of certain European banks remains of concern. In particular, the weakness of certain Italian banks, confirmed by the results of the EBA stress tests published on 29 July 2016 and again accentuated by the rejection of constitutional reform in the referendum on 4 December 2016, is a matter for attention. The Group's exposure to Italian banks was EUR 218 million. It relates for the most part to banks with good credit quality. The exposure to banks rated non-investment grade was in an amount of EUR 1 million.

Dexia Group commitments on monolines

Dexia has indirect exposure to monolines in the form of financial guarantees that insure the timely payment of principal and interest due on certain bonds and loans. Actual claims against monoline insurers only become due if actual defaults occur in the underlying assets.
As at 31 December 2016, Dexia's portfolio included EUR 17.8 billion of assets insured by monolines, of which, 75% was attributable to insurers that were rated investment grade by two or more external rating agencies. All but two (FGIC and Ambac's Segregated Account) continue to pay all claims on time and in-full.

Impairment on counterparty risk – Asset quality

The year 2016 was marked by a sharp fall of the stock of impaired assets (by EUR -468 million), amounting to EUR 1,064 million as at 31 December 2016, as well as a fall of EUR -235 million of specific impairments allocated, amounting to EUR 321 million.
This clear fall of impaired assets and specific impairments is essentially explained by the disposal of the securities of Heta Asset Resolution AG during the second half-year 2016.
Furthermore, the restructuring of several impaired assets enabled provisions on those exposures to be reversed.
As a consequence, the coverage ratio was 30.2% as at 31 December 2016.
In addition to specific impairments, Dexia has collective (statistical or sector) provisions the total amount of which was EUR 416 million as at 31 December 2016, against EUR 422 million as at 31 December 2015.

ASSET QUALITY		
(in EUR million)	31/12/2015	31/12/2016
Impaired assets	1,532	1,064
Specific impairments	556	321
Coverage ratio (1)	36.3%	30.2%
Collective provisions	422	416

(1) Ratio between specific impairments and impaired assets

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. The Dexia Group has identified exposures corresponding to the said EBA definition and published the amount of its non-performing exposure. As at 31 December 2016 outstanding on non-performing exposures was EUR 2.4 billion, corresponding to 111 counterparties.

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). Forbearance is applied on healthy or safe assets or on non-performing assets. As at 31 December 2016, 53 counterparties were the object of forbearance, in an outstanding amount of EUR 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 whose 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 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 Market 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 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 (CVA, DVA, FVA) and their variation are not included in the VaR model but are included in stress scenarios.

Value at Risk

The detail of the VaR from the market activities of the trading portfolios is presented in the following table. At the end of December 2016, total consumption in VaR was EUR 8.2 million, against EUR 13.7 million at the end of 2015.

VALUE AT RISK FROM THE MARKET ACTIVITIES OF THE TRADING PORTFOLIOS

(in EUR million)	2015				2016			
VaR (10 days, 99%)	Interest and FX (Banking and Trading)	Spread (Trading)	Other Risks	Total	Interest and FX (Banking and Trading)	Spread (Trading)	Other Risks	Total
Average	9.6	4.6	0.2	14.4	6	2.8	0.2	9
End of period	10.3	3.1	0.2	13.7	4	4.1	0.2	8.2
Maximum	11.6	5.5	0.3	17	10.4	4.1	0.2	14
Minimum	6.9	3	0.2	12.4	2.4	2.3	0.2	5.1

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 2016, this sensitivity amounted to EUR -13 million for a one basis point increase in credit spreads. AFS sensitivity is down by EUR 5 million following the reclassification of EUR 1.5 billion of sovereign securities in the category "Financial assets held to maturity" 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) policy aims to reduce liquidity risk as far as possible and limit exposure to interest rate and foreign exchange risk.

Management of interest rate and exchange rate risk

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 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.
The sensitivity of long-term ALM was EUR +8.8 million as at 31 December 2016, compared with EUR +2.2 million as at 31 December 2015. This is in line with the ALM strategy, which seeks to minimise income statement volatility.

(in EUR million)	2015	2016
Sensitivity	+ 2.2	+ 8.8
Limit	+/-80	+/-80

Measurement of foreign exchange risk

With regard to foreign exchange, the Management Board 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:
- 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 prudently, 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 the 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 12-month funding plan is sent monthly to the State guarantors and shareholders, central banks and supervisory authorities;
- Fortnightly/Bimonthly 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 prudential supervisory approach to Dexia. This approach was extended in 2016.
For instance, this approach authorises the proportionate use of supervisory powers in view of the constraints of compliance with the liquidity ratios set forth by the CRR [(1)]. It relies in particular on an enhanced reporting of the liquidity position, including weekly liquidity projections over four weeks and monthly funding plans over twelve months, based on a central scenario and stress scenarios. Furthermore, Dexia sends monthly Liquidity Coverage Ratio (LCR) [(2)] projections over twelve months. Finally, close monitoring of the diversity of funding sources and the concentration of cash outflows completes the mechanism for measuring liquidity risk.
As at 31 December 2016, the Dexia Group LCR was 80%. However, despite the very significant progress made by the Group in terms of reducing its liquidity risk, the financial characteristics of Dexia since its entry into resolution do not allow it to ensure compliance with certain regulatory ratios over the term of the orderly resolution plan approved by the European Commission.
The proportionate use of supervisory powers by the ECB notably assumes that Dexia's situation does not deteriorate significantly. A reversal of this approach may have a material adverse effect on the activity (including the credit institution status) of Dexia and, consequently, on its financial situation.

(1) Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms.
(2) LCR measures the coverage of liquidity requirements at 30 days in a stressed environment, by a volume of liquid assets. It replaces Belgian and French regulatory liquidity ratios.

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' 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, almost 99% of losses under the Basel definition originated from the category "Execution, Deliveries and Process Management".
The other categories ("External Fraud" and "Failure of Systems or IT Infrastructure") represent 12% of the total number of incidents but less than 1% of total losses.
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 senior management with an overall view of most 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: actions are defined in response to major incidents, deficient controls or 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.
- Management of information security and business continuity: the information security policy and associated instructions, standards and practices are intended to ensure that Dexia's information assets are secure. All activities take place in a secure environment. The various activity lines establish impact analyses for vital activities in the case of disaster or interruption. They define plans for the recovery. Updating of activity continuity procedures takes place at least once a year. On the basis of regular reports, the Management Board signs off recovery strategies, residual risks and action plans with the aim of delivering continuous improvement.

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

Management of operational risk during the period of resolution

In 2016, the Dexia Group continued to adjust its structure and its operational processes in line with its orderly resolution plan. This transitional phase is by nature liable to give rise to operational risks, particularly as a result of factors such as the departure of key staff members or process changes when applications need to be replaced or duplicated. The key components of the management system described above continue to be applied during this period. Specifically with regard to self-assessment of risks and controls, Dexia was called upon to assess the risk of discontinuity associated with the factors referred to above.

Stress tests

Dexia performs stress tests adopting a transversal and integrated approach to the Group's risk management process taking account of the orderly resolution plan. The aim of the stress tests is to identify possible vulnerabilities and simultaneously, in an adverse shock situation, to assess the possible increase of risk-weighted assets, additional liquidity or capital requirements.
In 2016, Dexia performed a series of stress tests (sensitivity analysis, scenario analysis) which rely on macroeconomic scenarios simulating crisis situations. By way of illustration, the possible impacts of an exit of the United Kingdom from the European Union and those associated with a stress on Italian banks, were assessed, approved internally and sent to the supervisory authorities. In accordance with the capital adequacy requirements, these stress tests are performed within the same operational framework as for the Pillar 2 process: they are performed with the ICAAP and ILAAP processes as required by the regulations.
In addition to the market risk and liquidity stress tests performed regularly and meeting regulatory requirements, Dexia performed stress tests covering the majority of the credit portfolios, particularly within the framework of Pillar 1 of the Basel regulations. In this regard, credit exposures covered by the internal rating systems are subject to tests for sensitivity and scenarios of the unfavourable evolution of macroeconomic variables.

Litigation

Like many financial institutions, Dexia is subject to a number of regulatory investigations and is 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 2016 and based on information available to Dexia on that date.

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

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

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).

Over the years, DNL closed the ongoing legal proceedings and litigation with the majority of clients. At the end of 2016, a certain number of customers (approximately 14,000) 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 due diligence 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

Due diligence cases

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, in case 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.

Also in 2016, the Supreme Court issued several decisions in favour of DNL, in relation to, inter alia, (i) the elements to be taken into account for the determination of whether a client's financial risk was acceptable or unacceptable and (ii) the alleged investment technical shortcomings. The allegations made by claimants were rejected.
Early 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.

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 remains 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. In 2016, a Court of Appeal rejected DNL's further arguments and strictly applied the decision of the Supreme Court thereon.

Number of law suits in progress

As at 31 December 2016, DNL was still involved in some 1,800 civil court cases (against 1,550 at the end of 2015). The increase mainly results from legal proceedings initiated based on the 9 October 2015 Supreme Court decision on spousal consent referred to above.
In spite of the foregoing 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 2015, 11 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 due diligence.

Financial Security Assurance

Financial Security Assurance Holdings Ltd (now Assured Guaranty Municipal Holdings Inc. and hereinafter referred to as "FSA Holdings") and its subsidiary, Financial Security Assurance Inc. (now Assured Guaranty Municipal Corp. and hereinafter referred to as "AGM"), both former subsidiaries of the Dexia Group, together with many other banks, insurance companies and brokerage firms, were investigated in the United States by the Antitrust Division of the US Department of Justice (DoJ), the US tax authorities and/or the US Securities and Exchange Commission (SEC) on the grounds that allegedly they had breached laws and regulations in connection with bidding on and entering into municipal derivatives transactions, including guaranteed investment contracts (GICs[1]), with municipal bond issuers. A number of US states also initiated similar investigations.
In addition to the government investigations described above, a large number of banks, insurance companies and brokerage firms, including in some cases FSA Holdings, Dexia and/or AGM, were named as defendants in various civil proceedings relating to municipal GICs and other transactions entered into with local authorities. These civil claims are based on alleged breaches of antitrust laws and other laws and regulations. Almost all of these ongoing civil proceedings were consolidated for pre-trial purposes before the US District Court for the Southern District of New York.
In addition to its direct exposure as defendant in some of these legal actions, under the terms of the sale of FSA Holdings and AGM to Assured Guaranty Ltd, Dexia retained the Financial Products business and agreed to indemnify AGM and Assured Guaranty Ltd for any losses related to this business that these companies may incur as a result of the investigations and lawsuits referred to above.
The SEC concluded its investigation into FSA Holdings and found that there were no grounds for it to continue its investigations into FSA Holdings.
Alongside these developments, in 2010 the DoJ indicted the former AGM employee Steven Goldberg, together with two former colleagues of Goldberg at his previous employer, in the bid-rigging case. The DoJ did not charge either AGM or any other entity in the Dexia Financial Products Group in connection with its indictment of Goldberg. After being found guilty of fraud in the first instance, Goldberg was freed when the US appellate court overturned the verdict in a final decision.
During 2016, Dexia substantially resolved all of the civil actions brought against FSA Holdings, AGM or Dexia entities. Settlement agreements were executed with the relevant plaintiffs. One civil action remains outstanding. The main class action was also settled during 2016. No Dexia or FSA entities were defendants in that class action.
In spite of the above developments, at present Dexia is unable reasonably to predict the duration or outcome of the remaining investigations and legal proceedings in progress, or their potential financial repercussions.

(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 recouping their initial investment. 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.

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.

In relation to the hedging transactions

In December 2010, the Region of Lazio brought a civil action before the Civil Court in Rome. Originally, 11 banks were summoned. The Region of Lazio requested the payment, by the banks, of an amount equal to the alleged hidden costs of the swap transactions that had been implemented (roughly EUR 8.5 million as far as Dexia Crediop was concerned). As a result of the Region's refusal to supply Dexia Crediop with a copy of the settlement agreements entered into by the Region with other banks involved in the same civil lawsuit, on 22 March 2016 Dexia Crediop obtained an order by the Administrative Court of Lazio requiring the Region to supply Dexia Crediop with said settlement agreements.
In July 2015, Dexia Crediop had also filed a jurisdiction challenge with the Italian Supreme Court seeking a declaration that jurisdiction over the litigation belongs to the English Courts. On 19 January 2017, the Supreme Court declared that the Civil Court in Rome is the competent court to rule on the claim for pre-contractual liability brought by the Region.
On 17 June 2016, the High Court in London issued a default judgment in favour of Dexia Crediop in the civil lawsuit with the Province of Milan. The Court confirmed that the swap agreements were legally valid and binding ab origine and ordered Milan to pay the legal costs incurred by Dexia Crediop.
On 10 November 2016, the High Court in London issued a second judgment in the Prato case on the issues which had not yet been decided in its first judgment on 25 June 2015, in which it had declared the swaps concluded with Prato to be null and void as found to be in breach of the Italian Financial Consolidated Text (Testo Unico Finanza "TUF"), on door-to-door selling. In the second judgment, the Court declared the swaps also to be null and void for two further reasons: (i) the failure expressly to contemplate the withdrawal period provided for by the section of TUF on distance marketing techniques and (ii) the failure to comply with certain other provisions of TUF and of Consob Regulation No. 1152 of 1998 containing other requirements with which the contracts should have complied. Appeal proceedings have been initiated and should be heard in the first half of 2017.
The criminal proceedings before the Criminal Court in Prato are ongoing. On 30 January 2017, the Public Prosecutor made his final statement requesting Dexia Crediop and its employee to be sentenced for alleged fraud. Further hearings are scheduled to take place in the first half of 2017.
On 21 December 2016, the High Court in London dismissed the jurisdiction challenge brought by the Province of Brescia against the claim filed by Dexia Crediop on 21 April 2016 and ordered Brescia to pay the legal costs incurred by Dexia Crediop. The Court also confirmed the legal calendar for the civil lawsuit.
On 18 March 2016, Brescia initiated another lawsuit before the Civil Court in Rome in relation to the advisory agreement concluded with Dexia Crediop. This proceeding is also ongoing.
On 11 January 2017, the Civil Court in 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 of 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.
To date, the Public Prosecutor of the Criminal Court in Messina has not taken any further steps in his criminal investigation for alleged fraud.

In relation to the non-hedging type transactions

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, seeking for a declaration 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 to obtain payment of part of the assigned receivables that remain unpaid is also still pending before the Court of Appeal.
Dexia Crediop is involved in litigation concerning the Istituto per il Credito Sportivo ("ICS") in which Dexia Crediop is a quota holder, together with other Italian financial institutions. 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 in court (civil and administrative proceedings) as a result of the self-redress resolutions 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 in 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 whom it had granted structured loans. As at 31 December 2016, 51 clients had issued summonses against DCL in connection with structured loans (compared to 147 clients at the end of 2015), of which 37 concern structured loans held by the Société Française de Financement Local (SFIL), parent company of the Caisse Française de Financement Local (CAFFIL), 11 concern structured loans held by DCL and 3 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.

The support fund created by article 92-I of the 2014 Finance Act in favour of local authorities became operational during the 4th quarter of 2015 and its activity reached an end in September 2016. The help of this support fund, together with the support fund dedicated to public hospitals, enabled a significant number of litigations to be closed definitively by settlement.

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.

Dexia Kommunalbank Deutschland (DKD), a subsidiary of DCL, was also summonsed in a small number of disputes relating to structured loans. In 2016, DKD obtained favourable decisions at first instance in some of these proceedings.

In spite of the foregoing 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 May 2002, a group of minority shareholders brought a class action against Dexia Crédit Local (DCL) concerning its acquisition of shares held by the State of Israel and certain banks when Dexia Israel (DIL) was privatised.

After years of proceedings, the parties reached an agreement on 14 December 2014 to settle this dispute (together with a derivative claim filed in July 2012 by the same minority shareholders, to claim reimbursement of dividends allegedly overpaid by DIL to DCL) and the Central District Court in Tel Aviv approved the settlement agreement on 13 May 2015.

In December 2011, individual shareholders filed another class action against DCL, 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 by the Court allowed Dexia Israel, at the end of January 2017, to initiate an equalization process regarding its categories of shares and pay a dividend to all shareholders.

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 litigation is still pending in front of the Brussels Court of Appeal. Dexia strongly opposes the claims put forward by the plaintiffs and won the case in first instance. In spite of the positive developments, at present Dexia is unable reasonably to predict the duration or outcome of the remaining investigations and legal proceedings in progress, or their potential financial repercussions.

[Dexia has also been informed that an investigation initiated by certain plaintiffs is ongoing in Brussels in relation to alleged market abuse. Investigators are reviewing the matter; at present Dexia is unable reasonably to predict the duration or outcome of this investigation, or its potential financial repercussions.]

Litigation arising from disposal of the 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.

During 2016 and early 2017, some new indemnification applications or claims were made in relation to the disposal of entities, whilst other applications, introduced in previous years, were closed.

At present Dexia is unable reasonably to predict the duration or outcome of the remaining claims, investigations and legal proceedings in progress in this respect, 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 2016

As at 31 December 2016, Dexia's share capital came to EUR 500,000,000, represented by 30,896,352 shares with no par value, including 1,948,984 Class A shares and 28,947,368 Class B1 shares.
In accordance with Article 4 of the articles of association, shares may be held on a registered or dematerialised basis, as selected by their holders, within the legal limits applicable.

Class A shares

The Class A shares are listed on Euronext Brussels, with as at 31 December 2016, 224,953 registered shares and 1,724,030 dematerialised shares.
Dexia delisted its shares from the Paris and Luxembourg stock exchanges, as from 12 December 2016. This decision, which was taken in the context of the Group's orderly resolution, enables to simplify the operational functioning and to reduce operational costs.

Class B1 shares

All the Class B1 shares, i.e. 28,947,368 shares, are registered and are not listed. The Class B1 shares are held by the Belgian Federal State, through the Federal Holding and Investment Company, and the French State.
More detailed information related to the economic rights of A and B1 shares is provided in note 4.7 of the consolidated financial statements.

Reverse stock split

In accordance with the resolution of the extraordinary shareholders' meeting held on 20 May 2015, a reverse stock split was implemented at a ratio of one new share for one thousand existing shares. This reverse stock split has been effective since 4 March 2016. Fractions were consolidated into new shares, which were sold on the market by BNP Paribas Fortis, mandated by Dexia. The net proceeds from the sale of these new shares were divided prorata between the holders of fractions.
The holders of fractions were compensated in cash, in an amount of EUR 0.021 for each (former) Dexia share they held prior to the reverse stock split.

Summary of Dexia warrants as at 31 December 2016

	Exercise price (in EUR)	Exercise period		Number of warrants awarded [2]	Number of warrants exercised	Number of warrants cancelled as void	Number of residual warrants before transfer
		from	to				
Warrants granted in 2007							
Warrants "ESOP 2007"	21.02	30 June 2010 [1]	29 June 2017 [1]	10,322,550	0	493,956	10,883,145
Warrants granted in 2008							
Warrants "ESOP 2008"	9.12	30 June 2011	29 June 2018 [1]	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..

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 2016, 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;

• 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 2016.

The unchanged balance of the portfolio of own shares as at 31 December 2016 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 2016 was marked by the 60% deduction of the AFS reserve, in accordance with the calendar defined by the CRD IV Directive, and by the cancellation of the national discretion authorising the Group not to deduct the AFS reserve associated with sovereign securities from its regulatory capital.

Prudential requirements applicable to Dexia with regard to solvency

In December 2016, the European Central Bank (ECB) sent Dexia its conclusions within the framework of the supervisory review and evaluation process (SREP). Inter alia, it sent Dexia the qualitative and quantitative regulatory capital requirements which will be applicable to Dexia and its principal entities as from 1 January 2017, in accordance with the Regulation (EU) No 1024/2013 of the Council dated 15 October 2013.

The ECB required the Dexia Group to comply with a Total Capital ratio of 9.875%, including the capital conservation buffer of 1.250%.

These levels are also applicable to Dexia Crédit Local, on a consolidated basis.

Regulatory capital

Total capital can be broken down as follows:

• Common Equity Tier 1 capital, including in particular:
– share capital, premiums, retained earnings,
– 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 (hybrid);

• 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. 60% in 2016.

• 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 2016, the Dexia Group Total Capital reached EUR 7,305 million, against EUR 8,396 million as at 31 December 2015. This reduction is principally explained by the 60% deduction of the AFS reserve in 2016 against 40% in 2015, in accordance with the calendar defined by the CRD IV Directive. Furthermore, until 30 September 2016, the Dexia Group benefited from a national discretion authorising it not to deduct from its regulatory capital the AFS reserve associated with sovereign securities. Taking these two measures into account increases the amount deducted from regulatory capital by virtue of the AFS reserve to EUR -2.7 billion as at 31 December 2016 from the amount of EUR -1.2 billion as at 31 December 2015. The effect of these measures is partially offset by the positive net result for the financial year, and by a series of measures including the sale of heavily weighted assets or holdings directly deducted from equity and aimed at increasing the Group's regulatory capital.

Common Equity Tier 1 Capital followed a similar trend and was at EUR 7,011 million as at 31 December 2016, compared to EUR 8,180 million as at 31 December 2015.

REGULATORY CAPITAL		
(in EUR million)	31/12/2015	31/12/2016
Total Capital	**8,396**	**7,305**
Common Equity Tier 1 Capital	**8,180**	**7,011**
Core shareholders' equity	9,517	9,817
Gains or losses directly recognised in equity on available-for-sale or reclassified assets	(1,289)	(2,791)
Cumulative translation adjustments (group share)	123	157
Actuarial differences on defined benefit plans	0	(3)
Non-controlling interests eligible in Tier 1	292	259
Items to be deducted:		
Untangible assets and goodwill	*(27)*	*(32)*
Ownership of Common Equity Tier 1 instruments in financial institutions (>10%)	*(5)*	*(2)*
Own credit risk	*(173)*	*(148)*
DVA	*(122)*	*(80)*
AVA	*(136)*	*(166)*
Additional Tier 1 Capital (hybrid)	**67**	**50**
Subordinated debt	67	58
Items to be deducted:		
Ownership of Tier 1 instruments in financial institutions (>10%)	*0*	*(8)*
Tier 2 Capital	**149**	**244**
Subordinated debt	59	54
of which additional Tier 1 reclassified (hybrid)	*29*	*38*
IRB provision excess (+); IRB provision shortfall 50% (-)	257	247
Items to be deducted:		
Ownership of Tier 2 instruments in financial institutions (>10%)	*(168)*	*(58)*

As at 31 December 2016, the Group's Tier 1 hybrid capital securities represented a nominal total of EUR 96 million, including EUR 58 million eligible as additional Tier 1.
No hybrid debt buyback operations were carried out in 2016. 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 422 million as at 31 December 2016 and included EUR 16 million of eligible subordinated debt. Taking account of the additional Tier 1 reclassified, the IRB provision excess and the regulatory deductions, Tier 2 Capital amounted to EUR 244 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 2016, risk-weighted assets amounted to EUR 43.4 billion, including EUR 41.0 billion for credit risk, EUR 1.4 billion for market risk and EUR 1 billion for operational risk. As a reminder, at year-end 2015, risk-weighted assets amounted to EUR 51.4 billion, including EUR 48.2 billion for credit risk, EUR 2.2 billion for market risk and EUR 1 billion for operational risk. At a credit risk level, the fall was for the most part induced by the reduction of the asset portfolio. The fall of risk-weighted market assets is associated with the decline of general and specific interest rate risk and the reduction of the specific foreign exchange risk.

RISK-WEIGHTED ASSETS		
(in EUR million)	31/12/2015	31/12/2016
Credit risk-weighted assets	48,167	40,988
Market risk-weighted assets	2,248	1,367
Operational risk-weighted risks	1,000	1,000
TOTAL	**51,414**	**43,356**

Solvency ratios

Dexia's Common Equity Tier 1 ratio[1] was 16.2% as at 31 December 2016.
As from 1 January 2017, Dexia must comply with a Total Capital ratio of 9.875%. As at 31 December 2016, Dexia's Total Capital ratio was 16.8%. As at 1 January 2017, it is estimated at 14.5%, after the 80% deduction of the AFS reserve associated with sovereign and non-sovereign securities.

SOLVENCY RATIOS

	31/12/2015	31/12/2016
Common Equity Tier 1 ratio	15.9%	16.2%
Total Capital ratio	16.3%	16.8%

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 presented to 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 is renewed for 2017, taking account of the evolution of risks, Dexia's situation and the recommendations of the JST.

Liquidity management

In 2016, the Group has adopted a prudent liquidity management policy in order to anticipate any market disruptions. At the same time, it optimized its funding mix, by reducing its reliance on central bank funding.
The net amount of cash collateral posted by the Group to its derivatives counterparties suffered pronounced volatility over the year, reaching EUR 38.3 billion before gradually returning to the level at the end of 2015. As at 31 December 2016, the net amount of collateral was EUR 32.7 billion, against EUR 32.1 billion at the end of 2015.
At the same time, the volume of funding significantly shrank, from EUR 162.8 billion in December 2015 to EUR 146.5 billion at year-end 2016. This evolution is principally explained by the reduction of the size of the asset portfolios.
Over the year, the Group adjusted its funding mix by favouring cheaper funding sources. The Group accordingly reduced its recourse to the European Central Bank to EUR 655 million as at 31 December 2016, in the form of LTRO, whilst that outstanding had been EUR 15.9 billion a year earlier.
During the year, Dexia successfully launched various long-term public benchmark transactions, in euro, US dollar and sterling, ranging from 3 to 7 years. These issues totalled EUR 5.5 billion, USD 3 billion and GBP 0.8 billion and, combined with private placement activity, enabled total long-term guaranteed funding to be raised in an amount equivalent to EUR 13.2 billion, thus covering the 2016 requirements in September and enabling the 2017 funding programme to be prefunded. At the same time, the Group was extremely active in its short-term funding through various guaranteed programmes in euro and US dollar. Short term funding activity accounted for 544 transactions totalling EUR 50.5 billion. The average term of the short-term funding exceeded 7 months. As at 31 December 2016, the outstanding guaranteed debt was up, at EUR 71.4 billion, against EUR 61 billion at the end of 2015.
The Group also continued its short and long-term secured market funding efforts, with outstandings slightly lower than the previous year, falling from EUR 67.4 billion at the end of 2015 to EUR 58.4 billion as at 31 December 2016, in line with the reduction of the stock of assets eligible for this type of funding.
Consequently, as at 31 December 2016 the Group's funding now relies on guaranteed funding and secured market funding, at 49% and 41% respectively, whilst central bank funding was significantly reduced (0.4%). However, the Group retains the capacity to access the latter type of funding in the case of necessity.
At the end of 2016, the Dexia Group had a liquidity reserve of EUR 18.2 billion, including EUR 14.9 billion in the form of eligible assets with the European Central Bank.

(1) Ratio including the net income for the financial year.

Human resources

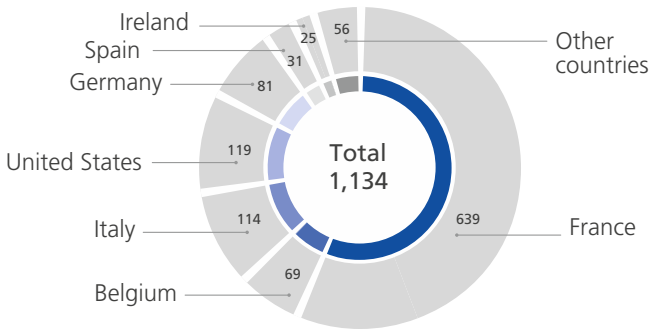
Introduction

The year 2016 was marked by the continuing deployment of the HR offer and the change management launched in 2014. The management endeavoured to improve the attractiveness of Dexia, to promote the professional opportunities offered by the Group and to guarantee staff members the best possible visibility concerning employment prospects. In particular, it sought to increase the flexibility and the employability of its staff members.
In parallel with these actions, during the first quarter 2016, management presented the company's major strategic alignments to its social partners, in line with its new obligations.
Finally, at the end of the year, a huge commitment survey was conducted throughout the Group.
The aim of these measures is to enable the Group to continue its orderly resolution in a calm social climate whilst observing the undertakings made by the States vis-à-vis the European Commission in December 2012.

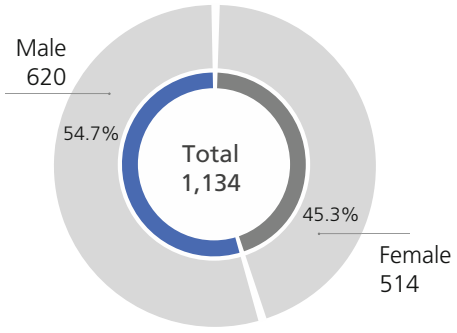
Key figures

At the end of 2016, the Dexia Group had 1,134 staff members, of 39 different nationalities, in 13 countries. 69 people are based in Belgium and form a team of staff members and executives involved in the continuity of activity, all activity lines combined.
In France, the total workforce of Dexia Crédit Local was 639 people as at 31 December 2016, against 661 at the end of 2015.
More than 55% of staff members have joined the Group in the last ten years and the Group gained 8% of new staff members in 2016. At the end of 2016, the average length of service of staff members of the Group was 11.1 years. The average age was 43.1 years.
The overall workforce mix of men and women was 54.7% and 45.3% respectively.
92% of Group staff members are employed on indefinite-term contracts and 8% work part-time.

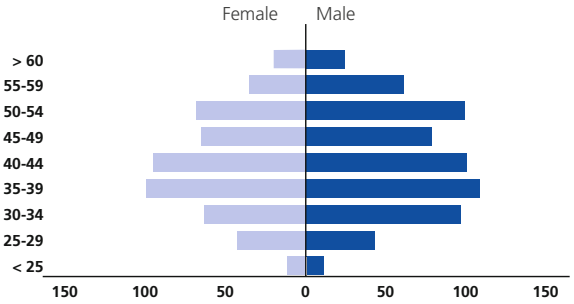
NUMBER OF STAFF MEMBERS AS AT 31 DECEMBER 2016



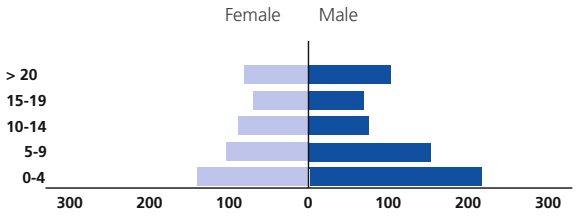
GENDER BREAKDOWN AS AT 31 DECEMBER 2016



AGE PYRAMID
AS AT 31 DECEMBER 2016



SENIORITY PYRAMID
AS AT 31 DECEMBER 2016



Training

Dexia seeks to offer all of its staff members an environment in which they can develop their skills and knowledge while contributing to the organization and enhancing their own employability. A great many development and training opportunities are offered to every staff member. The development of staff members is managed in a close collaboration between the Human Resources department, the heads of activity lines and direct managers. Dexia thus endeavours to develop the expertise of each staff member in phase with the evolution of the different business lines, a guarantee of performance and employability.
Following on from previous years, the Dexia Human Resources department has organised its desire for action around six lines of training:

- Accompaniment in the evolution of business lines and/or mobility;
- Employability in Dexia's specific context;
- Strengthening of managerial and collaborative skills as well as those in change management within the context of the Group's resolution;
- Detection and prevention of psychosocial risks with the accent placed on wellbeing at work;
- Implementation of regulatory mechanisms;
- Support for seniors with the purpose of keeping them in employment.

Working conditions

Eager to continue the psychosocial risk prevention policy which has been followed for several years, in 2016 management renewed its support mechanisms and those for the prevention of psychosocial risks.
Several vectors for information feedback currently enable such risks to be detected within entities (business partners, work doctors, social assistants, staff representatives and so on).
Regarding prevention, a certain number of measures have been put in place or proposed within entities: preventive medical consultations, ergonomic advice, seminars to increase the awareness of staff members to psychosocial risks, training and practical workshops on stress management and coaching.

Finally, as in previous years, situations declared stressful were taken in hand and accompanied by various means: interviews with the Human Resources department, coaching sessions, psychological support measures and working time organisation.

Dexia&You commitment survey

All Group staff members were invited to take part, from 17 November to 6 December 2016, in a huge satisfaction survey covering a large number of subjects (working conditions, relations with management, perception of the Group and so on). Questions were validated by a working group consisting of a panel representing staff members of the Group, with the assistance of an independent firm which specialises in this type of survey, guaranteeing the anonymity of the answers given.
This survey, the results of which were communicated during ten full overview sessions at the beginning of 2017, had a very high participation rate of 77%. The resources identified by the survey, and also the weak points highlighted by it, will serve as the basis for discussion in a series of workshops to which all staff members will be invited in the spring of 2017, so that they can work together on lines for improvement.

Recruitment, mobility, career management

Against the background of its resolution, Dexia offers specific professional opportunities, presenting a greater variety of tasks and a broader view of the banking activities than the majority of financial institutions.
Indeed this year, even more strongly, the Group has supported internal mobility and promoted skills development. When the required skills are not available internally, the Group has adopted a proactive and selective strategy for finding candidates externally, inter alia by the acquisition of CV libraries, the renewal of a solution enabling job advertisements to be disseminated simultaneously on several channels, the review and introduction of partnerships with recruitment sites or operators, in order to ensure the best visibility of offers open and to attract the best profiles. In addition, an IT recruitment platform enables candidates to apply easily on line and the Recruitment team to guarantee the effective monitoring of both internal and external applications.

Moreover, within the context of professional support and talent development, the Human Resources department conducts regular individual interviews with each staff member, the aim of which is to review their professional career and the associated means of training and, in total confidentiality, to consider the prospects for their professional development. It also enables the various aspects of professional life to be tackled: job description, management, remuneration, work-life balance and career plan.

Remuneration

The mechanism in place within the Group provides that the Dexia Remuneration Committee deals with all aspects of remuneration policy. Its proposals are then submitted to the Dexia Board of Directors which decides on the appropriate measures.
Dexia defines its remuneration policy in observance of the undertakings made by the Belgian, French and Luxembourg States to the European Commission, within the framework of the Group's orderly resolution plan. In particular, Dexia implements the remuneration principles established within the G20 and national bodies, and the Group ensures that it makes the best possible use of public funds when it comes to remuneration.
For more detailed information on the remuneration policy are to be found in the section entitled "Remuneration report" of the Chapter "Declaration of corporate governance" in this annual report.

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 met at various vital times to consider the Group's financial situation and organisation within the context of the reorganisation and outsourcing projects currently under way.

Declaration of Corporate Governance

Introduction

Code de référence

The Belgian Code of Corporate Governance, designated by the Belgian legislator as the Reference Code ("2009 Code"), is the reference for Dexia as a company whose shares are listed on a regulated market within the meaning of Article 96, § 2 1° of the Companies Code. It is available on the Belgian Official Gazette website as well as on the website *www.corporategovernancecommittee.be*.
The 2009 Code contains nine mandatory principles for listed companies, declined in different lines of conduct. Dexia respects these nine principles, but, as a result of the Group's specific situation and the new governance structure rolled out following the capital increase at the end of December 2012 and. despite measures taken recently, departs from a line of conduct which recommends a mix of genders within the Board of Directors (Provisions 1.2 and 2.1 of the 2009 Code). The Board of Directors has taken this recommendation into consideration, as well as legal provisions, when appointing members to fill vacant positions on the Board, favouring a mix of genders within the Board of Directors. In this way, during 2016, four directors were appointed. As at 31 December 2016, the Board of Directors was composed of 12 members of whom 25% were women.

Corporate Governance Charter

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

Relations with shareholders

Shareholder base

Dexia's main shareholders as at 31 December 2016 were as follows:

Shareholder name	Percentage of existing Dexia shares held (31 December 2016)
Belgian federal government through the Federal Holding and Investment Company	50.02%
French State	44.40%
Institutional, individual & employee shareholders	5.58%

At that same date, and to the best of the company's knowledge, 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 2016, the directors 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 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 18 May 2016 and directly followed by an extraordinary shareholders' meeting, the minutes of which are available on the website.

Relations with institutional investors

Relations with institutional investors are handled by a dedicated team (*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* under the "Shareholder/Investor" section.

The website (*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 [(1)], 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 13 December 2016) 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

In view of regulatory developments regarding governance and the entry into force of legal provisions imposing gender quotas within the Board of Directors, at its extraordinary shareholders' meeting held on 18 May 2016, Dexia changed the composition of its Board of Directors. The Articles of Association of Dexia now 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.

(1) Dexia decided to withdraw the listing of its shares on the Paris and Luxembourg stock exchanges. This withdrawal was approved by Euronext Paris and the Luxembourg Stock Exchange and has been effective since 12 December 2016.

As at 31 December 2016, 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 • Chairman of the Remuneration Committee

Other mandates and functions: • Director: Média-Participations S.A. • Chairman of the Board of Directors: Solocal Group SA • Chief Executive Officer: Bee2Bees SA (Brussels) • 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. In 2014 he joined 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, 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, Equador, Sydney and London) and Fortis (Brussels and Amsterdam) as well as in Private Equity dealing with company portfolio management. From 2011 to 2016, Wouter Devriendt 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

21 July 1973 • French • Non-executive director since 2015
Holds no Dexia shares

Term of mandate: 2015-2018

Primary function: Head of Department for Economy Financing

Other mandates and functions: Director of Dexia Crédit Local

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

Term of mandate: 2013-2017

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 and 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 • Independent director of United Pensions OFP

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

Term of mandate: 2013-2017

Specialised committees: Member of the Risk Committee

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

Other mandates and functions: Director of Dexia Crédit Local • Chief Executive Officer of the Silver Fund • Chairman of the Protection Fund for Financial Instruments and 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. Mr Alexandre De Geest 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 Administrator of Treasury (FPS Finance) since 2012.

Principal fields of expertise: financial markets, finance, taxation

THIERRY FRANCQ

30 April 1964 • French • Non-executive director since 2013
Holds no Dexia shares

Term of mandate: 2013-2017

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

Primary function: Deputy Commissioner General for Investment (Ministry of Economy)

Other mandates and functions: Director of Dexia Crédit Local.

Biography: Mr Thierry Francq is a graduate of Ecole polytechnique and Ecole nationale de statistiques et d'administration économique (ENSAE). He began his career in 1988 in the direction de la Prévision (Ministry of the Economy, Finance and Industry), as Deputy Head of the Foreign Office and then of the Financial Transactions Office. In 1992, he joined the Treasury department where he was Deputy Head of the Housing Financing Office and, as of 1995, Head of the Office in charge of French policy regarding the International Monetary Fund (IMF), the international financial system and the preparation of the G7 summits. From 2000 to 2002, he held the position of Deputy Head in charge of the regulation of insurance companies, products and markets and then, from 2002 to 2004, Deputy Head of the State holding department before being appointed Head of Economy Financing at the French Treasury. In March 2009, he was appointed Secretary General of the Financial Markets Authority (AMF). From December 2012 to September 2013, he was executive adviser to the CEO of the French Treasury. On 7 October 2013, he was appointed Deputy Commissioner General for Investment.

Principal fields of expertise: economics, financial regulation and administration

VERONIQUE HUGUES (CO-OPTED ON 1 JULY 2016 TO REPLACE PIERRE VERGNES)

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
Non-executive director of Dexia Kommunalbank Deutschland

Term of mandate: 2016-2021

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.

ALEXANDRA SERIZAY (CO-OPTED ON 27 OCTOBER 2016 TO REPLACE FRANÇOISE LOMBARD)

31 March 1977 • French • Independent director since 2016
Holds no Dexia shares

Term of mandate: 2016-2021

Specialised committees: *ad interim* Chairman of the Audit Committee

Principal function: Deputy Head of Retail Banking & Wealth Management, Head of Individual and Professional Markets and Wealth Management, HSBC

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 Deputy Head of Multichannel Customer and Products Development in 2016. She is a director of Dexia Crédit Local, HSBC REIM France (Real Estate Investment Managers), HSBC SFH France (HSBC covered pool) and HSBC Factoring France.

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

LUCIE MUNIESA

22 February 1975 • French • Non-executive director since 2016
Holds no Dexia shares

Term of mandate: 2016-2020

Specialised committees: member of the Risk Committee and member of the Remuneration Committee

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

Other mandates and functions: Director of Consortium de Réalisation (CDR), La Française des Jeux SAEM, 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 Invesments" 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

MICHEL TISON

23 May 1967 • Belgian • Independent director since 2016
Holds no Dexia share

Term of mandate: 2016-2020

Specialised committees: member of the Remuneration Committee

Principal function: 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. Since 2014 he has been a member of the Board of Directors of Dexia Crédit Local.

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

Term of mandate: 2013-2017

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: Sopima, Certi-Fed SA, Bel to mundial ASBL, Kasteel Cantecroy Beheer SA, Société Belge d'Investissement International, Biloba Investment & Ginkgo Management SARL, Capricorn Health Tech Fund SA and Capricorn ICT Fund, Fundo Performa-Key de Inovaçao em meio ambiente • Director of Dexia Crédit Local.

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

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.
In order to ensure that there is balanced gender representation on the Board, and in accordance with applicable provisions, on a proposal from the Appointments Committee, the Board of Directors adopted and action plan aimed at achieving the target set by Article 518 bis of the Companies Code. To that end, each director undertakes to resubmit their mandate to the Board of Directors on the express request of the Chairman of the Board, in order to allow the appointment of a female director.

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 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 compensation 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 compensation awarded to directors. The conclusive report, prepared by the Chairman and presented to the Board of Directors on 17 March 2016, enabled the useful measures proposed by that report to be adopted.

Changes in the composition Dexia's Board of Directors in 2016

During the 2016 financial year, the significant changes in the composition of Dexia's Board of Directors were as follows:
- The extraordinary shareholders' meeting held on 18 May 2016 decided in favour of changing the composition of the Board of Directors which is now composed of a minimum of 9 and a maximum of 13 members.
- At the extraordinary shareholders' meeting held on 18 May 2016, Mr Wouter Devriendt was appointed as a replacement for Mr Karel de Boeck as Chief Executive Officer and Mr Corso Bavagnoli, co-opted on 6 July 2015, was appointed definitively.
- At the extraordinary shareholders' meeting held on 18 May 2016, Mrs Françoise Lombard and Mrs Lucie Muniesa as well as Messrs Johan Bohets and Michel Tison were appointed to the post of director for a term of 4 years.
- At its meeting on 15 June 2016, the Board of Directors noted the resignation of Mr Pierre Vergnes with effect as from 30 June 2016 and co-opted Mrs Véronique Hugues as director with effect as from 1 July 2016. Her definitive appointment for a new period of 4 years will be proposed to the ordinary shareholders' meeting to be held on 17 May 2017.

• At its meeting on 27 October 2016, the Board of Directors noted the resignation of Mrs Françoise Lombard with effect as from 27 October 2016 and co-opted Mrs Alexandra Serizay as director with effect as from 27 October 2016. Her definitive appointment for a new period of 4 years will be proposed to the ordinary shareholders' meeting to be held on 17 May 2017.
• At its meeting on 16 November 2016, the Board of Directors noted the resignation of Mr Paul Bodart.

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 four independent directors as at 31 December 2016, namely Mr Robert de Metz, Mr Bart Bronselaer, 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 31 March 2017.

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 the 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 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 2016 financial year

Attendance by Board members

The Board met 12 times in 2016. The directors' attendance rate at Board meetings was 88%.

ATTENDANCE RATE FOR EACH DIRECTOR AT BOARD OF DIRECTORS' MEETINGS

Corso Bavagnoli	66.7%
Johan Bohets (1)	85.7%
Bart Bronselaer	83.3%
Alexandre De Geest	100%
Wouter Devriendt (1)	100%
Robert de Metz	100%
Thierry Francq	83.3%
Véronique Hugues (2)	80%
Lucie Muniesa (1)	87.5%
Alexandra Serizay (3)	100%
Michel Tison (1)	100%
Koen Van Loo	91.7%
Karel De Boeck (4)	100%
Pierre Vergnes (5)	71.4%
Françoise Lombard (1)(6)	0%
Paul Bodart (7)	100%

(1) Mandate effective as from 18 May 2016.
(2) Mandate effective as from 1 July 2016.
(3) Mandate effective as from 27 October 2016.
(4) Resigned their mandate with effect as from 18 May 2016.
(5) Resigned their mandate with effect as from 30 June 2016.
(6) Resigned their mandate with effect as from 27 October 2016.
(7) Resigned their mandate with effect as from 16 November 2016.

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:

- Dexia Group solvency and increasing the capital of Dexia Crédit Local;
- Group liquidity, VLTM, ICAAP;
- Strategic and IT projects, operational risk management;
- IFRS 9;
- Deleveraging policy;
- Orderly resolution plan;
- Corporate governance charter;
- Reverse stock split;
- Governance: enlarging the Management Board, changing the composition of the Board of Directors, appointing the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer and the self-assessment exercise for the Board of Directors and specialised committees;
- Executive remuneration report;
- Policies of compliance, internal audit, exercise of outside mandates.

Conflicts of interest

As already indicated above, if any director or a member of the Management Board, directly or indirectly has a financial interest conflicting with a decision or operation of the Board of Directors or the Management Board, they must inform the other directors or members of the Management Board prior to the Board of Directors' or the Management Board's deliberations. Their declaration, as well as a substantiation of the conflict of interest on their part, must appear in the minutes of the meeting of the Board of Directors or the Management Board which has to take the decision.

At its meeting on 6 September 2016, the Management Board decided that Dexia would grant an indemnification guarantee to new directors.

INDEMNIFICATION GUARANTEE

It is recalled that by a decision of the Board of Directors of Dexia on 13 March 2014, it was decided in principle to grant members of the Board of Directors and the Management Board of Dexia, as well as members of the Board of Directors of Dexia Crédit Local, an indemnification guarantee against the risk of their liability being incurred by virtue of their mandate(s).

The Board of Directors, at its meetings on 13 March 2014, 13 November 2014 and 6 July 2015, and the Management Board of Dexia, at its meetings on 25 March 2014 and 10 May 2016 therefore approved the grant of an indemnification guarantee to each director and member of the Management Board of Dexia and Dexia Crédit Local exercising a mandate on those dates or those whose mandate began after those dates.

The indemnification undertaking is limited to what is permitted by the Law. For a description of the conditions and limits of the guarantee, reference is made to the statement in the minutes of the meeting of the Board of Directors on 13 March 2014.

This indemnification guarantee must today be extended to the new directors recently appointed, namely Mrs Alexandra Serizay and Mrs Véronique Hugues.

If necessary, the procedure in relation to the prevention of conflicts of interest must be applied (description of the grounds substantiating the conflict, auditor information, reminder in the management report, abstention of the person concerned).

Within the context of the appointment of Mrs Alexandra Serizay, who was co-opted as a director of Dexia Crédit Local on 15 June 2016, and who will join the Dexia Board on the receipt of approval from the European Central Bank, and the appointment of Mrs Véronique Hugues as a director and member of the Management Board of Dexia Crédit Local and of Dexia, it is proposed that the Management Board grant an indemnification guarantee to them both, under the same conditions and within the same limits as those applicable to the guarantees granted previously.

Prior to the discussion on the proposal to grant an indemnification guarantee to Mrs Véronique Hugues and Mrs Alexandra Serizay, Mrs Véronique Hugues informs the other members of the Board, in accordance with Article 524ter of the Companies Code, that she might have an interest opposed to the decision envisaged since it concerns her personal situation, being a member of the Management Board and benefiting from the planned indemnification guarantee. Mrs Véronique Hugues does not take part in the deliberation or the vote in relation to that decision and therefore leaves the meeting of the Board.

Decision: the Board considers that this decision is in the company's corporate interest since it meets the requirements of the Dexia Group in recruiting and retaining competent executives. As an institution engaged in a process of orderly resolution at risk and the financial situation of which is subject in particular to many external parameters, Dexia has an interest in offering solid liability cover in order to recruit quality executives.
The Chairman presents a draft letter from Dexia for the attention of Mrs Alexandra Serizay and Mrs Véronique Hugues in which the company undertakes to keep them indemnified for all prejudicial consequences associated with their mandate.
The Management Board approves the draft letters relating to this guarantee.

During its meeting on 14 October 2016, the Board decided on finalisation of the contract with the Chief Executive Officer and the adaptation of the severance payment clause.

(…)

5. Finalisation of the contract of the Chief Executive Officer

Mr Wouter Devriendt leaves the meeting of the Board, in application of Article 523 of the Companies Code.
The contract of Mr Wouter Devriendt in the capacity of Chairman of the Management Board contains a severance clause by which a payment of 3 months of remuneration will be made in the event of his contract being terminated by Dexia (on any grounds other than severe wrong). This clause originates from the contract concluded with his predecessor. It should be observed nonetheless that, considering his age, the situation of Mr Wouter Devriendt is not comparable with that of his predecessor. It is therefore proposed to adapt this clause in order to extend the severance payment thus provided to 1 month of remuneration per year of service, with a minimum of 3 months and a maximum of 9 months, which corresponds to the ceiling contained in the Banking Act. It is in the interests of Dexia to be able to offer the Chief Executive Officer a reasonable severance payment clause suited to the circumstances of the particular case.

Decision: the Board of Directors unanimously decides on the proposal from the Remuneration Committee, to adapt the management contract of Mr Wouter Devriendt in order to extend the payment provided in the case of severance on the initiative of Dexia to 1 month of remuneration per year of service, with a minimum of 3 months and a maximum of 9 months.
(…)

At its meeting on 10 January 2017, the Management Board decided to the grant by Dexia of an indemnification guarantee to new directors.

INDEMNIFICATION GUARANTEE GRANTED TO NEW MEMBERS OF THE MANAGEMENT BOARD

It is recalled that by a decision of the Board of Directors of Dexia on 13 March 2014, it was decided in principle to grant members of the Board of Directors and the Management Board of Dexia, as well as members of the Board of Directors of Dexia Crédit Local, an indemnification guarantee against the risk of their liability being incurred by virtue of their mandate(s).
The Board of Directors, at its meetings on 13 March 2015, 13 November 2014 and 6 July 2015, and the Management Board of Dexia, at its meetings on 25 March 2014, 10 May 2016 and 6 September 2016 therefore approved the grant of an indemnification guarantee to each director and member of the Management Board of Dexia and Dexia Crédit Local exercising a mandate on those dates or those whose mandate began after those dates. The indemnification undertaking is limited to what is permitted by the Law. For a description of the conditions and limits of the guarantee, reference is made to the statement in the minutes of the meeting of the Board of Directors on 13 March 2014.
This indemnification guarantee must today be extended to members of the Management Board who were recently appointed, namely Mrs Aline Bec and Mr Guy Cools. If necessary, the procedure in relation to the prevention of conflicts of interest must be applied (description of the grounds substantiating the conflict, auditor information, reminder in the management report, abstention of the person concerned). It is proposed that the Management Board grant an indemnification guarantee to Mrs Aline Bec and Mr Guy Cools, under the same conditions and within the same limits as those applicable to the guarantees previously granted.
Prior to the discussion on the proposal to grant an indemnification guarantee to Mrs Aline Bec and Mr Guy Cools, Mrs Aline Bec and Mr Guy Cools inform the other members of the Board, in accordance with Article 524ter of the Companies Code, that they might have an interest opposed to the decision envisaged since it concerns their personal situations, being members of the Management Board and benefiting from the planned indemnification guarantee.
They inform the company's auditor of that duality of interests. Mrs Aline Bec and Mr Guy Cools do not take part in the deliberation or the vote on that decision and therefore leave the meeting of the Board.

Decision: the Board considers that this decision is in the company's corporate interest since it meets the requirements of the Dexia Group in recruiting and retaining competent executives. As an institution engaged in a process of orderly resolution at risk and the financial situation of which is subject in particular to many external parameters, Dexia has an interest in offering solid liability cover in order to recruit quality executives.
The Chairman presents a draft letter from Dexia for the attention of Mrs Aline Bec and Mr Guy Cools in which the company undertakes to keep them indemnified for all prejudicial consequences associated with their mandate.
The Management Board approves the draft letters relating to this guarantee.

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

Composition

In accordance with Article 526bis of the Companies Code and Article 27 of the Banking Law[1], the Audit Committee is composed of non-executive directors, and a majority of independent members, including the committee chairman, who meet the criteria set out by Article 526ter of the Companies Code.
The members of this committee have collective skills in the fields of activity of the Dexia Group and accounting and audit, and at least one member is skilled in audit and/or accounting.
As at 31 December 2016, the Audit Committee was composed of:

- Mrs Alexandra Serizay, independent director and chairman of the Audit Committee *ad interim*. On 16 November 2016, she succeeded Mr Paul Bodart who had resigned. She has sound professional experience in audit and accounting, acquired in particular as Head of Internal Audit at France Télécom Transpac and within HSBC as a member of the Executive Committee. Moreover, as Secretary General of Retail Banking at HSBC France and member of the Executive Committee, she was responsible for the financial strategy and member of the Risk Management Committee. As Deputy Head of Customer Development and Offers, she is responsible for the definition and the implementation of the business plans and for Retail Banking ALM matters, while remaining member of the Risk Management Committee.
- 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.

Activities during the 2016 financial year

The Audit Committee met six times in 2016 and dealt in particular with the following matters:

- Group financial statements;
- Reports on risks, liquidity, audit, compliance and permanent control;
- Budget;
- ICAAP;
- Business model and new classification of assets under IFRS 9;
- Appointment of external auditors.

Attendance of each individual director

The individual attendance rate for directors at the Audit Committee's meetings was 89% in 2016.

ATTENDANCE RATE OF EACH DIRECTOR AT MEETINGS OF THE AUDIT COMMITTEE

Paul Bodart [1]	100%
Bart Bronselaer	100%
Thierry Francq	66.7%
Alexandra Serizay [2]	100%

(1) No longer a member of this committee since 16 November 2016
(2) Mandate effective from 16 November 2016

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.

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

Risk Committee

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

As at 31 December 2016, the Risk Committee was composed as follows:

- Mr Bart Bronselaer, independent director and chairman of the Risk Committee. He has sound expertise in market risk and risk management acquired during his career, particularly with Merrill Lynch International, where he held the post of Head of Strategic Solutions for Europe, and Royal Park Investments as Chairman of the portfolio Management Committee.
- 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. He has been chairing 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. Since 2012, he has been an Executive Director of the Department of State Financing and Financial Markets to the Belgian Treasury and on that basis runs the State Debt Agency and is a member of its Strategy Committee.

Activities during the 2016 financial year

The Risk Committee met seven times in 2016[2] and dealt in particular with the following matters:

- SREP;
- ICAAP;
- Quarterly risk reports (market, credit, operational and legal risks);
- Risk Appetite Framework;
- VaR limits;
- Permanent control and compliance work;
- Credit models;
- Provisioning methods under IFRS9;
- WISE structure;
- 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 76% in 2016.

ATTENDANCE RATE OF EACH DIRECTOR AT MEETINGS OF THE RISK COMMITTEE

Bart Bronselaer	100%
Corso Bavagnoli [1]	0%
Alexandre De Geest	85.7%
Lucie Muniesa [2]	100%

(1) Member of the Risk Committee until 16 November 2016.
(2) Member of the Risk Committee since 16 November 2016.

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.

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 director. The Chief Executive Officer and the Head of Human Resources attend meetings, without being members. The members of the Remuneration Committee are invited to attend meetings of the Appointments Committee.

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 2016, 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.

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 2016 financial year

The Appointments Committee met eight times in 2016 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;

• Legislative development regarding the obligations of good governance in France and Belgium (cf. Banking Law);

• The annual report and the remuneration report;

• Assessing the skills of members of the Board of Directors and of the specialised committees;

• Updating the internal rules of the Board of Directors.

Attendance of each individual director

The individual attendance rate of directors at meetings of this committee was 88% in 2016.

ATTENDANCE RATE OF EACH DIRECTOR AT MEETINGS OF THE APPOINTMENTS COMMITTEE

Robert de Metz	100%
Thierry Francq	75.0%
Koen Van Loo	87.5%

The Remuneration Committee

Composition

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

The Appointments 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 2016, the Remuneration Committee was composed as follows:

• 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 represen-

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

ting 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.

Remit

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

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

Operation and activities during the 2016 financial year

The Remuneration Committee met six times in 2016 and dealt in particular with the following matters:

• Remuneration of executives and composition of governance bodies;

• Remuneration report.

Attendance of each individual director

The individual attendance rate of directors at meetings of this committee was 100% in 2016.

ATTENDANCE RATE OF EACH DIRECTOR AT MEETINGS OF THE REMUNERATION COMMITTEE

Paul Bodart (1)	100%
Alexandre De Geest (1)	100%
Robert de Metz	100%
Lucie Muniesa (2)	N/A
Michel Tison (2)	N/A

(1) No longer a member of the committee since 16 November 2016.
(2) A Member of this committee since 16 November 2016.

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 2016, 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 General Secretariat, Compliance and Permanent Control departments directly to the Chief Executive Officer.

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

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.

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.

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.

Remuneration report

Remuneration of Dexia directors for 2016

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).
Lastly, attendance fees are reduced by 50% for any meeting of the Board of Directors organised at the same time as a meeting of another Board. 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 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 2016 (3)	Total 2015 (3)
Directors										
R. de Metz (2)	250,000	0	0	0	0	0	0	0	250,000	250,000
W. Devriendt (appointed 18 March 2016)	0	0	0	0	0	0	0	0	0	N/A
J. Bohets (appointed 18 May 2016)	0	0	0	0	0	0	0	0	0	N/A
V. Hugues (appointed 1 July 2016)	0	0	0	0	0	0	0	0	0	N/A
C. Bavagnoli (1)	0	12,000	6,000	8,000	0	0	0	0	26,000	6,000
B. Bronselaer (2)	0	12,000	11,000	12,000	6,000	9,000	0	0	50,000	53,000
A. De Geest	0	12,000	11,000	12,000	6,000	6,000	0	2,250	49,250	43,000
Th. Francq (1)	0	12,000	9,000	10,000	4,000	2,000	1,500	0	38,500	43,500
F. Lombard (1) (appointed 18 May 2016 – resigned 27 October 2016)	0	3,000	0	0	0	0	0	0	3,000	N/A
L. Muniesa (1) (appointed 18 May 2016)	0	9,000	6,000	6,000	2,000	2,000	0	0	25,000	N/A
A. Serizay(2) (appointed 27 October 2016)	0	6,000	2,000	6,000	2,500	1,000	0	0	17,500	N/A
M. Tison (2) (appointed 18 May 2016)	0	12,000	8,000	12,000	5,000	5,000	0	0	42,000	N/A
K. Van Loo	0	12,000	9,000	12,000	0	0	2,250	0	32,250	51,000
K. De Boeck (end of mandate 18 May 2016)	0	0	0	0	0	0	0	0	0	0
P. Vergnes (resigned 30 June 2016)	0	0	0	0	0	0	0	0	0	0
P. Bodart (2) (resigned 16 November 2016)	0	12,000	10,000	10,000	7,500	5,000	0	2,250	46,750	58,000

(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 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 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.

Remuneration of members of the Management Board of Dexia for 2016

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 2016 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 2016

The fixed remuneration may be composed of a basic remuneration and a function premium paid on a quarterly basis.
The basic remuneration is determined in consideration of the nature and importance of the responsibilities assumed by each and taking account of market references for posts of a comparable importance.

SUMMARY OF THE BASIC REMUNERATION AND FUNCTION PREMIUMS PAID IN 2016 TO THE CHAIRMAN OF THE MANAGEMENT BOARD

(in EUR)	Basic remuneration	Function premiums
Karel De Boeck [1]	229,546	0
Wouter Devriendt [2]	370,455	0

(1) Chairman of the Management Board until 18 May 2016.
(2) Chairman of the Management Board since 18 May 2016.

SUMMARY OF THE BASIC REMUNERATION AND FUNCTION PREMIUMS PAID IN 2016 TO THE OTHER MEMBERS OF THE MANAGEMENT BOARD [1]

(in EUR)	Basic remuneration	Function premiums
Other members of the Management Board	1,666,994	78,000

(1) Mrs Véronique Hugues (as from 1 July 2016), Messrs Pierre Vergnes (until 30 June 2016), Claude Piret (until 23 October 2016), Johan Bohets and Benoît Debroise.

Supplementary pensions for members of the Management Board

Members of the Management Board tied to Dexia by a management agreement benefit from a supplementary pension put in place by Dexia.

Characteristics of the applicable supplementary pension schemes

The supplementary pension scheme benefiting members of the Management Board within the framework of their contract with Dexia entitles them, when they retire, 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 372,760 were paid in 2016 in favour of members of the Management Board including EUR 120,967.82 for the successive Chairmen of the Management Board.

Supplementary death cover, permanent invalidity and medical costs

Collective annual premiums of EUR 186,892 were paid in 2016 in favour of members of the Management Board for supplementary death cover, permanent invalidity and medical costs, including EUR 74,505 for the Chairmen of the Management Board, broken down as follows:

SUPPLEMENTARY SCHEMES	
(in EUR)	
Death, orphan capital	52,903.69
Invalidity	21,013.75
Hospitalisation	588.05

Other benefits of members of the Management Board

SUMMARY OF BENEFITS GRANTED TO THE CHAIRMAN OF THE MANAGEMENT BOARD	
(in EUR)	
Representation costs	6,503.66
Car	999.68

SUMMARY OF BENEFITS GRANTED TO OTHER MEMBERS OF THE MANAGEMENT BOARD	
(in EUR)	
Other benefits[1]	55,947.42

(1) This amount includes the tax advantage linked to the provision of a company car which can also be used for private purposes as well as the reimbursement of costs such as social insurance and representation costs.

Option plan

Since 2009, no option has been granted or exercisable.

Severance conditions

Provisions relating to severance payments under the Dexia remuneration policy

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

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.

Departures during the year 2016

Mr Pierre Vergnes left Dexia with effect from 30 June 2016. A severance payment corresponding to 7 months of fixed remuneration was paid to him in accordance with applicable contractual provisions.
Mr Claude Piret left Dexia with effect from 23 October 2016, with a severance payment equivalent to 1.5 months of fixed remuneration.
Mr Karel De Boeck left Dexia with effect from 18 May 2016. He received no severance payment.

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

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

The control function contributes to:

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

General architecture of the function

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

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

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

The main internal control participants

The participants concerned by internal control are as follows:

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

The responsibilities of the Board of Directors and the Management Board

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

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

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

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

The 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 his express consent in the case where the Management Board decides to replace them.

Operational principles

Internal control activities are guided by the following principles:
• Risk-based approach: internal control within Dexia adopts a risk-based approach. The internal control functions determine their control programmes and their activities on the basis of a prior risk assessment.
• Coordination: 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)*.

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 external auditors (*Réviseurs d'Entreprises*, *Commissaires aux Comptes*) on subjects of common interest.
Internal audit is responsible for coordinating and centralising exchanges, whether incoming or outgoing, with the various banking supervisory authorities, whatever the activity line concerned. Internal audit is also responsible for coordinating the inspection tasks of the various supervisory authorities. In this context, the General Auditor or the Head of Audit for the entity is the point of contact for the supervisory authorities. He coordinates the process of gathering data within the entity and the responses to inspection reports or to requests for additional information. Internal audit also monitors recommendations made by the supervisory authorities under the same conditions as for recommendations made by internal audit.
In order to avoid any duplication of tasks, internal audit maintains regular exchanges with the external auditors on internal control matters. 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.

General overview of activity over the year 2016

In 2016, the tasks of Internal Audit related to all the Group's major activity lines: Assets ("De-leveraging & De-risking", "Asset Management for Local Public Sector France"), Funding and Markets ("Cash & Liquidity Management"), Risk ("Market Risk", "Business Continuity Plan"), Finance ("Asset / Liability Management", "Capital Management", "Consolidation"), General Secretariat ("Compliance Combating Money Laundering"), Operations and IT Systems (IT Project Management").
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).
Contacts with the Dexia Group's various supervisors remained intense over the year 2016, particularly through regular information meetings in which Group Internal Audit was involved.

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 2016

In accordance with the principles set out in the Inspection charter, the tasks performed by Inspection in 2016 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, actions dealing with questions of legal authority.
The unit's work was in particular aligned to subjects related to defending against cyber-crime, considering the multiplication and diversification of outside fraud attempts on Dexia staff: staff awareness and information, identification of fraud attempts and assistance to staff who have suffered such fraud attempts. 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 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 regulators 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 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 2016, 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 market abuse were strengthened in compliance with the amended regulatory framework applicable since July 2016. Actions were taken as a consequence to amend the policies and procedures. As regards more particularly the prevention of insider trading in Dexia financial instruments, rules define the statuses attributed to staff members according to the access to inside/sensitive information which they have or are liable to have through the performance of their tasks, and set the restrictions/obligations associated with each status. These obligations were recalled on several occasions during the Group restructuring operations.
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), and intervenes within the framework of complying with the provisions regarding the combating of money laundering and terrorism financing placed in compliance and complying with the "MIF2" regulations.
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 and such deployment was reviewed in compliance committees meeting with various compliance officers.

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.
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 Perma-

nent 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.

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. Since 30 June 2016, Dexia has also been obliged to send a FINREP every quarter on a statutory basis to the European Central Bank via the local supervisors.

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 2014 for a term of three years closing at the end of the ordinary shareholders' meeting in May 2017. The company is represented by Mr Yves Dehogne, chartered auditor.

Auditor's remuneration

This table gives a summary of the remuneration paid to the statutory auditors for their services in 2016 for Dexia and the whole Group.

DELOITTE (in EUR)	**Services provided for Dexia**	**Services provided for the Dexia Group (consolidated amounts)**
a) Audit of the financial statements	395,000	1,998,516
b) other tasks (non-certification)	54,120	105,360
TOTAL	**449,120**	**2,103,876**

In accordance with new legal provisions in force, as the mandate of Deloitte expires at the shareholders' meeting to be held in May 2017, the Audit Committee has decided to run a tender call at the level of Dexia. The Board of Directors will propose to the shareholders' meeting that a college be formed by joining Mazars Belgium and Deloitte Belgium for the statutory audit of the Dexia financial statements.

Protocol for the Dexia Group's prudential structure

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

General information

Overview of Dexia's direct holdings as at 31 December 2016

Dexia's direct holdings as at 31 December 2016 are as follows:
- 100% in Dexia Crédit Local (France);
- 100% in Dexia Nederland BV (Netherlands);
- 100% in Dexiarail S.A. (France).

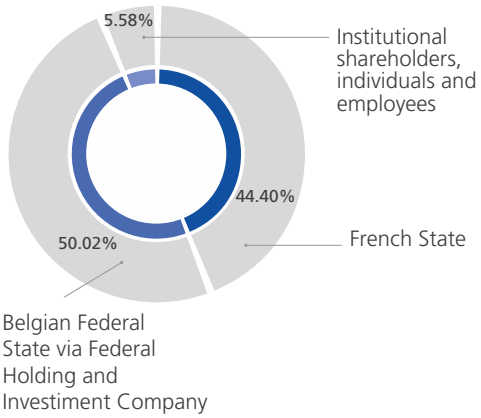
Dexia has a permanent establishment in France.

Agendas for shareholders' meetings

The agendas for the ordinary shareholders' meeting and the extraordinary shareholders' meeting to be held on Wednesday 17 May 2017 in Brussels are available on Dexia's website: *www.dexia.com*.

Notifications under the legislation on transparency

Under the terms of the Law of 2 May 2007 (the "Law"), relating to the disclosure of major holdings in issuers whose shares are admitted for trading on a regulated market, and the Royal Decree dealing with its execution dated 14 February 2008, which came into force on 1 September 2008, and on the basis of Article 5 of the articles of association of Dexia, shareholders are required to notify their holdings to the Financial Services and Markets Authority (FSMA) and to Dexia, whenever these reach a threshold of 1%, 3%, then 5% or a multiple of 5%.
To calculate percentages of holdings, the numerator consists of the number of voting rights attached to shares conferring voting rights or not associated with shares, reduced or increased by the number of voting rights which may be acquired on the exercising of similar financial instruments held by the person making the declaration. The denominator consists of the total number of existing voting rights in Dexia as published on the website.
Dexia received no notification in 2016.
To Dexia's knowledge, the breakdown of the shareholder structure as at 31 December 2016 is as follows:



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 2016
The shareholder structure is detailed on page 35, and the information relating to the share capital is provided on page 28 of the annual report.

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

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

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

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

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

Rules applicable for the appointment and replacement of members of the Board of Directors as well as the amendment of the articles of association of the issuer
The rules relating to the appointment and replacement of members of the Board of Directors are detailed on page 40 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.

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.

Consolidated Financial Statements as at 31 December 2016

Consolidated balance sheet

ASSETS (in EUR million)		Notes	31/12/2015	31/12/2016
I.	Cash and central banks	2.0	4,835	4,223
II.	Financial assets at fair value through profit or loss	2.1 & 4.1	20,176	17,781
III.	Hedging derivatives	4.1	6,672	6,830
IV.	Financial assets available for sale	2.2	22,257	16,568
V.	Interbank loans and advances	2.3	7,815	7,503
VI.	Customer loans and advances	2.4	127,876	119,206
VII.	Fair value revaluation of portfolio hedges		1,696	1,750
VIII.	Financial assets held to maturity	2.5	200	1,918
IX.	Current tax assets	2.6	41	29
X.	Deferred tax assets	2.6	35	32
XI.	Accruals and other assets	2.7	38,346	36,884
XII.	Non current assets held for sale	4.5	12	0
XV.	Tangible fixed assets	2.8	293	15
XVI.	Intangible assets	2.9	27	32
TOTAL ASSETS			**230,281**	**212,771**

The notes on pages 74 to 144 are an integral part of these condensed consolidated financial statements.

LIABILITIES (in EUR million)		Notes	31/12/2015	31/12/2016
I.	Central banks	3.0	15,932	690
II.	Financial liabilities at fair value through profit or loss	3.1 & 4.1	22,779	18,676
III.	Hedging derivatives	4.1	29,978	33,796
IV.	Interbank borrowings and deposits	3.2	48,780	40,238
V.	Customer borrowings and deposits	3.3	9,399	10,778
VI.	Debt securities	3.4	91,532	98,524
VII.	Fair value revaluation of portfolio hedges		170	100
VIII.	Current tax liabilities	3.5	2	7
IX.	Deferred tax liabilities	3.5	159	28
X.	Accruals and other liabilities	3.6	6,135	4,446
XIII.	Provisions	3.7	376	432
XIV.	Subordinated debt	3.8	492	482
	TOTAL LIABILITIES		**225,734**	**208,197**
XV.	**Equity**	3.9	**4,547**	**4,574**
XVI.	Equity, Group share		4,118	4,147
XVII.	Capital stock and related reserves		2,486	2,486
XVIII.	Consolidated reserves		6,907	7,018
XIX.	Gains and losses directly recognised in equity		(5,438)	(5,710)
XX.	Net result of the period		163	353
XXI.	Minority interests		429	427
TOTAL LIABILITIES AND EQUITY			**230,281**	**212,771**

The notes on pages 74 to 144 are an integral part of these condensed consolidated financial statements.

Consolidated statement of income

(in EUR million)		Note	31/12/2015	31/12/2016
I.	Interest income	5.1	10,751	10,016
II.	Interest expense	5.1	(10,492)	(9,818)
III.	Commission income	5.2	21	18
IV.	Commission expense	5.2	(16)	(18)
V.	Net gains (losses) on financial instruments at fair value through profit or loss	5.3	524	275
VI.	Net gains (losses) on financial assets available for sale	5.4	85	76
VII.	Other income	5.5	51	82
VIII.	Other expenses	5.6	(90)	(125)
IX.	**NET BANKING INCOME**		**834**	**506**
X.	Operating expenses	5.7	(447)	(391)
XI.	Depreciation, amortisation and impairment of tangible fixed assets and intangible assets	5.8	(23)	(16)
XII.	**GROSS OPERATING INCOME**		**364**	**99**
XIII.	Cost of risk	5.9	(174)	140
XIV.	**OPERATING INCOME**		**190**	**239**
XVI.	Net gains (losses) on other assets	5.10	14	54
XVIII.	**NET RESULT BEFORE TAX**		**204**	**293**
XIX.	Income tax	5.11	(18)	42
XX.	Result from discontinued operations, net of tax		(17)	17
XXI.	**NET INCOME**		**169**	**352**
XXII.	Minority interests		6	(1)
XXIII.	**NET INCOME, GROUP SHARE**		**163**	**353**
	Earnings per share, Group share (in EUR)[1]	5.12		
	Basic		83.85	181.23
	- from continuing operations		*92.37*	*172.65*
	- from discontinued operations		*(8.52)*	*8.58*
	Diluted		5.29	11.43
	- from continuing operations		*5.83*	*10.89*
	- from discontinued operations		*(0.54)*	*0.54*

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

The notes on pages 74 to 144 are an integral part of these financial statements.

Consolidated statement of comprehensive income

(in EUR million)	31/12/2015			31/12/2016		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
NET INCOME			**169**			**352**
Elements reclassified or likely to be subsequently reclassified in net income						
Cumulative translation adjustments	100		100	38		38
Revaluation of financial assets available for sale or reclassified into loans and receivables or into held-to-maturity financial assets.	903	(10)	893	(215)	22	(193)
Revaluation of hedging derivatives	225		225	(194)		(194)
Elements that will never be reclassified or likely to be subsequently reclassified in net income						
Actuarial gains and losses on defined benefit plans	6		6	(3)		(3)
TOTAL UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY	**1,234**	**(10)**	**1,224**	**(374)**	**22**	**(352)**
NET RESULT AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY			**1,393**			**0**
of which, Group share			1,366			2
of which, Minority interests			27			(2)
NET RESULT AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY FROM CONTINUING ACTIVITIES	**1,438**	**(28)**	**1,410**	**(81)**	**64**	**(17)**
of which, Group share			1,383			(15)
of which, Minority interests			27			(2)

The notes on pages 74 to 144 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

(in EUR million)	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
AS AT 31/12/2014	**500**	**1,990**	**(4)**	**2,486**	**7,470**	**(5,216)**	**(1,450)**
Movements during the period							
Appropriation of net income 2014					(606)		
Subtotal of shareholders related movements					**(606)**		
Translation adjustments							
Changes in fair value of financial assets available for sale through equity						690	
Changes in fair value of derivatives through equity							254
Changes in fair value of financial assets available for sale or reclassified as loans and advances, through profit or loss						189	
Changes in fair value of derivatives through equity							(28)
Changes in actuarial gains and losses on defined benefit plans							
Subtotal of changes in gains and losses directly recognized in equity						**879**	**226**
Net income for the period							
Other variations [1]					43		
AS AT 31/12/2015	**500**	**1,990**	**(4)**	**2,486**	**6,907**	**(4,337)**	**(1,224)**
Adjustment on opening equity [2]					(53)		79
AS AT 01/01/2016	**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 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 equity							(13)
Changes in actuarial gains and losses on defined benefit plans							
Subtotal of changes in gains and losses directly recognized in equity						**(188)**	**(194)**
Net income for the period							
Other variations					1		
AS AT 31/12/2016	**500**	**1,990**	**(4)**	**2,486**	**7,018**	**(4,525)**	**(1,339)**

(1): The positioning of cancellation of the results on internal transfers has been reviewed. For the amount still to be amortized as at 31 December 2014, mainly related to the cancellation of internal results between companies partially owned by third parties and fully owned companies, it generated a variation of EUR + 37 million in the Group's reserves, EUR - 2 million in Translation adjustments and EUR - 9 million in Minority interests. The net residual amount in reserves of EUR + 25 million comes from the impact of the modification on deferred taxes. Internal transfers of 2015 between companies partially owned by third parties and fully owned companies generated an amount of EUR + 6 million in Group share and EUR - 6 million in Minority interests.

(2): As a result of errors in the past, opening equity has 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.

The notes on pages 74 to 144 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	Translation adjustments	Total			Capital and reserves	Gains and losses directly recognised in equity	Total	
(5)	**32**	**(6,639)**	**(606)**	**2,711**	**455**	**(38)**	**417**	**3,128**
			606	0				
			606	**0**				
	93	93		93		7	7	100
		690		690		14	14	704
		254		254				254
		189		189				189
		(28)		(28)				(28)
5		5		5				5
5	**93**	**1,203**		**1,203**		**21**	**21**	**1,224**
			163	163	6		6	169
	(2)	(2)		41	(15)		(15)	26
0	**123**	**(5,438)**	**163**	**4,118**	**446**	**(17)**	**429**	**4,547**
		79		26				26
0	**123**	**(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**	**(5,710)**	**353**	**4,147**	**445**	**(18)**	**427**	**4,574**

Consolidated cash flow statement

(in EUR million)	31/12/2015	31/12/2016
CASH FLOW FROM OPERATING ACTIVITIES		
Net income after income taxes	169	352
Adjustment for:		
- Depreciation , amortization and other impairment	23	16
- Impairment losses (reversal impairment losses) on bonds , equities, loans and other assets	196	(240)
- Net (gains) or losses on investments	(33)	(56)
- Net increases (net decreases) in provisions	(64)	34
- Unrealised (gains) or losses	(489)	(211)
- Deferred taxes	24	(110)
Changes in operating assets and liabilities	136	139
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**(38)**	**(76)**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(23)	(19)
Sale of fixed assets	50	331
Acquisitions of unconsolidated equity shares	(4)	0
Sales of unconsolidated equity shares	37	48
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**60**	**360**
CASH FLOW FROM FINANCING ACTIVITIES		
Reimbursement of subordinated debts	(9)	(5)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	**(9)**	**(5)**
NET CASH PROVIDED	**13**	**279**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**5,133**	**5,467**
Cash flow from operating activities	(38)	(76)
Cash flow from investing activities	60	360
Cash flow from financing activities	(9)	(5)
Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents	321	33
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**5,467**	**5,779**
ADDITIONAL INFORMATION		
Income tax paid	(7)	(2)
Dividends received	2	13
Interest received	10,983	10,135
Interest paid	(11,095)	(10,065)

The notes on pages 74 to 144 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)	31/12/2015	31/12/2016
Cash and central banks (note 2.0)	4,835	4,223
Interbank loans and advances (note 2.3)	632	1,556
TOTAL	**5,467**	**5,779**

b. Of which, restricted cash:

(in EUR million)	31/12/2015	31/12/2016
Mandatory reserves [1]	184	293
TOTAL	**184**	**293**

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

The notes on pages 74 to 144 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 and post-balance-sheet events

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 15 March 2017.

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 2016, 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 SA as at 31 December 2016 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. These assumptions, which were already explained in previous accounting closures, are detailed hereafter.

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

In particular, the updates made on the basis of market data observable at the end of September 2012 and validated by the Board of Directors of Dexia on 16 November 2016 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments to date, such as the final version of the CRD IV Directive and implementation of the IFRS 9 accounting standard from 2018, based on the assumptions known to date.

The business plan 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, but at this stage 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.

From this perspective, 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 to reduce its reliance on central bank funding and to exit the exceptional funding mechanisms put in place in 2012. With its prudent liquidity management, Dexia has also established liquidity reserves with the aim of protecting itself against the increase in the amount of cash collateral[1] paid to its derivatives counterparties. These reserves amounted to EUR 18.2 billion as at 31 December 2016.

(1)Deposits or securities posted by Dexia to its counterparties as guarantee for interest rate or currency swaps.

However, over the duration of the Group's resolution, uncertainties remain regarding the implementation of the business plan.
• It is in particular exposed to the evolution of accounting and prudential rules.
• The financial characteristics of Dexia since its entry in resolution do not allow it to ensure compliance with certain regulatory ratios over time.
The 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 (the sensitivity of the liquidity requirement to that parameter being in the order of EUR +1 billion for a decrease of 10 basis points in long-term rates) 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.);
• 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.).

As mentioned in the note 1.3. Significant items included in the statement of income, in 2016, in order to be in line with market practices, Dexia adjusted its methodology of valuation of non-collateralised derivative instruments (discounting curve and the Induced effects on the Funding Valuation Adjustment (FVA)). This change in the method of calculation was recognised as an expense in Dexia's financial statements as at 31 December 2016 (see note 5.3. Net gains (losses) on financial instruments at fair value through profit or loss).

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 2016

• Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions". This amendment does not have a material impact on Dexia's financial statements, due to limited impact of defined benefit plans at Dexia's group level.
• Annual Improvements 2010-2012 and 2012-2014 cycles, which are a collection of amendments to existing IFRS. These amendments do not have a material impact on Dexia's financial statements as those amendments are related to minor adjustments of some IFRS standards.
• Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants". These amendments have no impact on the financial statements of Dexia.
• Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations". This amendment does not impact the financial statements of Dexia.
• Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation". These amendments have no impact on the financial statements of Dexia.
• Amendment to IAS 1 "Disclosure Initiative". This amendment does not have a material impact on the notes to Dexia's financial statements.
• Amendment to IAS 27 "Equity Method in Separate Financial Statements". This amendment is related to separate financial statements and therefore does not impact the consolidated financial statements of Dexia.
• Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception". These amendments have no impact on 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 2016

• IFRS 15 "Revenue from Contracts with Customers" including amendments to IFRS 15 "Effective date of IFRS 15". IFRS 15 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.

• IFRS 9 "Financial Instruments" (see 1.1.2.4.).

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 16 "Leases" (issued by IASB in January 2016). This standard, in replacement of the current IAS 17 standard and related interpretations, sets out a comprehensive model for the identification and treatment of lease arrangements. 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.

• Amendment to IAS 7 "Disclosure Initiative" (issued by IASB in January 2016). This amendment is effective as from 1 January 2017 and the impact on the notes to Dexia's financial statements is currently being assessed.

• Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses" (issued by IASB in January 2016). This amendment is effective as from 1 January 2017 and will not have a material impact on Dexia's financial statements.

• Clarification to IFRS 15 "Revenue from Contracts with Customers" (issued by IASB in April 2016). This amendment is effective as from 1 January 2018 together with the new standard IFRS 15 (see 1.1.2.2.).

• Amendment to IFRS 2 "Classification and Measurement of Sharebased Payment Transactions" (issued by IASB in June 2016). This amendment is effective as from 1 January 2018 and will have no impact on the financial statements of Dexia.

• Amendment to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued by IASB in September 2016). This amendment is effective as from 1 January 2018 and will have no impact on the financial statements of Dexia.

• Annual Improvements 2014-2016 cycle (issued by IASB in December 2016), which are a collection of amendments to existing IFRS. The amendment to IFRS 12 "Disclosure of Interests in Other Entities" is effective as from 1 January 2017 and other amendments are effective as from 1 January 2018. 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.

• IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" (issued by IASB in December 2016). This interpretation is effective as from 1 January 2018 and the impact on Dexia's financial statements is currently being assessed.

• Amendment to IAS 40 "Transfers of Investment Property" (issued by IASB in December 2016). This amendment is effective as from 1 January 2018 and will have no impact on the financial statements of Dexia.

1.1.2.4. 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.

Disclosed information is also enhanced.

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.

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 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, except if they are designated within a hedging relationship. In this case, 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 IFRS9 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 amortized 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 depends in which bucket 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 IFRS9 standard, Dexia choose to use the prudential definition provided by the regulation No 575/2013 of the European Union, consistently with the definition used for internal credit risk management.
Dexia is not planning to use the simplified approach allowed by IFRS9 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;
– 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.

On-going project and impacts
The impacts of IFRS 9 on the financial statements and the financial and prudential own funds of Dexia are still under

assessment. 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 is co-lead by the Chief Financial Officer and the Chief Risk Officer.
The initial diagnostic and impact assessment studies of the application of the standard have been performed:
– on the first phase of the standard, Dexia reviews the characteristics and the classification and measurement method of all its financial assets;
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, eligible to the amortised cost or fair value through equity categories. These assets are mainly vanilla floating or fixed rate loans or securities. A part of these assets implies, in case of early redemption, the payment or reception by the borrower of an indemnity which depends on the level of market interest rates. These early redemption fee, which are symmetrical, are discussed at the IASB level, regarding the consistency of this feature with the SPPI conditions. Waiting for the final decision of the IASB, the classification of these assets is still uncertain. 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 will depend on strategic decisions to be 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 initiated work to develop a new impairment model;
First of all, the financial assets will be allocated amongst 3 buckets according to the following approach:
Financial assets classified in bucket 3 are financial assets in default, as defined by the prudential regulation.
For other financial assets, the classification in bucket 1 or 2 will depend on:
1/ 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 ;
2/ a qualitative test including the review of watchlist exposures, the identification of forborn exposures and also the identification of sensible economic sectors.
If one the these two test 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 macro-economic forecast at medium term. These expected losses also take into account the uncertainty related to these macro-economic assumptions.
– on the third phase, 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).
Dexia also reviews new disclosure requirements in the consolidated financial statements.

During the first half of 2016, Dexia launched the assessment to adapt the information systems and internal process in order to comply with the new requirements for internal and external reporting related to IFRS 9 as of 1st January 2018. This implementation will continue and will be tested during 2017 for all entities of Dexia Group. The IFRS 9 project is reported regularly to the Management Board and the Board of Directors.

First Time application options

As permitted by IFRS 9, Dexia intends to early apply the treatment related to changes in the fair value attributable to own credit risk on financial liabilities designated as at fair value through profit or loss on the 1st January 2017.
As permitted by IFRS 9, Dexia decided not to present, in the 2018 annual report, comparative figures for 2017 restated under the application of IFRS 9 but will maintain 2017 figures under IAS 39.

First time application impacts on the financial statements of Dexia

The impact of the adjustments related the new IFRS 9 classification and measurements will be recognised on 1st January 2018 directly in equity on a retrospective basis, as if the assets were classified as such from inception.
At this stage, based on preliminary assessment which is still subject to several uncertainties (described below), Dexia expects that the first application of IFRS 9 will have the following impacts on its own funds on 1st January 2018:
– Reclassification of debt securities and structured loans, based on their characteristics, mainly from the amortised cost to the Fair Value Through P&L category. The impact of the fair valuation of these assets will probably be negative since the credit spreads have widened from inception, the interest rate risk being hedge besides. The valuation methodology for these loans is under on-going validation process ;
– Reclassification of Available For Sale assets into amortised cost will have a positive impact related to the release of unrealised gain or loss recognised 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 & Receivables categories. These reserves amount to EUR – 4,551 million (Group share) as at 31 December 2016 ;
– Reclassification of debt securities and loans held for sale when market opportunities will appear from amortised cost

category under IAS 39 (Loans & Receivables) to Fair Value Trough Equity under IFRS 9 which will 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 ;
– Recognition of additional provisions for credit risk, which are under calibration process. Dexia does not expect major modification 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 provision will be more significant for assets in bucket 2 which includes Financial instruments that have deteriorated significantly in credit quality since initial recognition completed with an additional backstop based on Watchlist or forborn assets. These assets will be subject to life-time expected loss which is higher than bucket 1 expected loss. 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.
Overall, the net global impact of the first time application of IFRS 9 on Dexia's own funds on the 1st January 2018 is expected to be positive, based on current assumptions. The magnitude of the impact on the financial statements on the 1st January 2018 depends on uncertainty factors among which:
– The evolution of market conditions and mainly the change in market credit spread between the 31st December 2016 and the 31st December 2017 ;
– Strategic decisions that will be made by Dexia during 2017 regarding the management of assets under resolution plan ;
– Standards amendments or interpretations that may be published in 2017 ;
– The modification of valuation model for financial assets ;
– The calibration of expected loss model, including the macro-economic scenarios that will be retained for this estimation ;
– Regulators and supervisors requirements that may have an impact in the valuation of assets or the level of provisions.

Other elements:
– On the 1st January 2017, the variation of own credit risk related to liabilities designated by option at fair value through profit or loss will be recognised directly in equity et no more in profit or loss. In case of early redemption of such liabilities, an analysis should be performed to identify and explain the difference between the redemption amount and the carrying amount. The part related to the variation of own credit risk will not be recognized in profit or loss but directly in equity (reclassification from "gains and losses directly recognised in equity" to "consolidated reserve") ;
– Some derivatives which are hedging financial assets that will be classified at Fair Value Trough Profit or Loss will not be eligible as hedging instruments contrary to the current treatment under IAS 39 and will be classified as Held for trading. These derivatives will remain in the banking book (i.e. not included in the trading book) from a regulatory point of view. The volatility in Profit or Loss related to the interest rate 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 impact Dexia's regulatory own funds.

The final impact on Dexia's regulatory own funds will also depends on prudential filters that will be applied on Dexia's equity under IFRS 9. Apart from prudential valuation on assets measured at fair value, the prudential treatment of IFRS 9 impacts is not yet defined in the European regulations, including the treatment of provision for credit risk.

1.1.2.5. Changes in presentation of consolidated financial statements of Dexia

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

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-mak-

ing 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 financial instruments at fair value through profit or loss". Interest earned is recognised in net interest income, and dividends received under "Net gains (losses) on financial instruments at fair value through profit or loss".

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, these financial liabilities are subject to the same accounting principles as described earlier under the heading "Financial instruments measured at fair value through 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. Interests 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 built up the final obligation.
The amount recognised in the balance sheet is the present value of the defined benefit obligation (i.e., the present value of the expected future payments required to settle the obligation resulting from the employee service in the current and prior periods), reduced by the fair value of plan assets at the balance-sheet date. The defined obligation is presented net of plan assets as a liability or an asset. Therefore, an asset may arise where a plan has been overfunded and are recorded separately if those assets are held by a Group entity. Any asset recognised is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.
Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets (excluding net interest) and any change in the effect of the asset ceiling (excluding net interest), they are recognised immediately in other comprehensive income and are not reclassified to profit or loss in a subsequent period.
Current service cost, past service cost (which is the change in the present value of the defined benefit obligation, resulting from a plan amendment or a curtailment) and any gain or loss on settlement are recognised in profit or loss.
Net interest on the net defined benefit liability (asset) is recognised in profit or loss. It is calculated by applying the discount rate used to measure the defined benefit obligation to the net defined benefit liability (asset), both as determined at the start of the annual reporting period, and taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
Qualified external actuaries carry out valuations of these defined benefit obligations. All valuations assumptions and results are reviewed and validated by an external actuary for Dexia that ensures that all calculations are harmonised and calculated in compliance with IAS 19 (as revised in 2011).

1.1.21.2.2. Defined contribution pension plans

Dexia's contributions to defined contribution pension plans are charged to the income statement in the year to which they relate. Under such plans, Dexia's obligations are limited to the contributions that Dexia agrees to pay into the fund on behalf of its employees.
The Belgian defined contribution pension plans are by law subject to minimum guaranteed return.
As a consequence of the Belgian law of 18 December 2015, minimum returns are guaranteed by the employer as follows: (i) for the contributions paid as from 1 January 2016, a new variable minimum return based on OLO rates, with a minimum of 1.75% and a maximum of 3.75%. In view of the low rates of the OLO in the last years, the return has been initially set to 1.75%, (ii) for the contributions paid until end December 2015, the previously applicable legal returns (3.25% and 3.75% respectively on the employer and employee contributions) continue to apply until retirement date of the participants.
The rates set for employer contributions and employee contributions apply as an average over the entire career.
In view of the minimum returns guarantees, those plans qualify as Defined Benefit plans and are determined using the Projected Unit Credit Method.

1.1.21.2.3. Retirement termination payments

Retirement termination payments are treated as defined benefit plans.

1.1.21.3. Other long-term benefits

These mainly includes provisions for jubilee premiums that employees receive after completion of specified periods of service.

Unlike defined benefit plans, actuarial gains and losses relating to these benefits are immediately recognised. All past service costs are recognised immediately in the income statement.

1.1.21.4. Termination benefits

A termination benefit provision is recorded at the earlier of the following dates:

- when Dexia can no longer withdraw the offer of those benefits; and
- when Dexia recognises costs for a restructuring that involves the payment of termination benefits.

1.1.21.5. Share-based payment

Dexia offered equity-settled share-based payments like stock options plans (SOPs) and employee share purchase plans (ESPPs) and cash-settled share-based payments.

The fair value of equity-settled plans was measured at grant date by reference to the fair value of the underlying equity instrument based on valuation techniques and on market data and took into account market-based vesting conditions. The impact of other vesting conditions was reflected in the accounts via an adjustment of the number of equity instruments included in the measurement. The fair value, recognised as a remuneration expense, was credited against equity.

In cash-settled share-based payments, the services received and the liability incurred, to pay for those services, were measured at the fair value of the liability. This fair value was measured at the grant date and at each reporting date until settled. The value was recognised as a remuneration expense with a corresponding increase in liabilities.

1.1.22. PROVISIONS

Provisions are mainly recognised for litigations claims, restructuring, and loan commitments.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The discount rate is the pre-tax rate that reflects current market assessments of the time value of money.

Provisions are recognised when:

- Dexia has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

Provisions on loan commitments are recognised 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 asset, liabilities, equity and net income does not exceed 1% of the total of consolidated balance sheet and net income (respectively EUR 2.13 billion and EUR 3.78 million (average on 3 years) in 2016). As at 31 December 2016, 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 2015

Dexia Luxembourg and Dexia Real Estate Capital Markets were liquidated, respectively on December 29, 2016 and on December 23, 2016.

CBX IA1 transferred its assets to Dexia Crédit Local on December 1, 2016.

A cross-border merger by absorption of Dexia Crédit Local and its subsidiary Dexia Sabadell was completed on November 1, 2016. At the same time, two new branches of Dexia Crédit Local, named DCL Sucursal in España and DCL Sucursal em Portugal, started their activities.

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 2016

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

		31/12/2015				31/12/2016			
Name	**Country**	**Method**	**Control rate**	**Interest rate**	**Ref**	**Method**	**Control rate**	**Interest rate**	**Ref**
PARENT COMPANY									
Dexia S.A.	Belgium								
Dexia S.A. Etablissement Stable France	France	FC	100	100		FC	100	100	
SUBSIDIARIES									
CBX.IA 1	France	FC	100	100					S1
CBX.IA 2 (1)	France	FC	100	100		FC	100	100	
Dexia CLF Banque	France	FC	100	100		FC	100	100	
Dexia CLF Régions Bail	France	FC	100	100		FC	100	100	
Dexia Crediop	Italy	FC	70	70		FC	70	70	
Dexia Crediop Ireland (2)	Ireland	FC	100	70		FC	100	70	
Dexia Crédit Local SA	France	FC	100	100		FC	100	100	
Dexia Delaware LLC	USA	FC	100	100		FC	100	100	
Dexia Financial Products Services LLC (4)	USA	FC	100	100		FC	100	100	
Dexia Flobail	France	FC	100	100		FC	100	100	
Dexia FP Holdings Inc (3)	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	65.99	65.31	
Dexia Kommunalbank Deutschland AG	Germany	FC	100	100		FC	100	100	
Dexia Luxembourg SA (ex Dexia LdG Banque SA)	Luxembourg	FC	100	100					S1
Dexia Nederland BV	Netherlands	FC	100	100		FC	100	100	
Dexia Real Estate Capital Markets	USA	FC	100	100					S1
Dexia Sabadell SA	Spain	FC	79.01	100					S3
FSA Asset Management LLC (4)	USA	FC	100	100		FC	100	100	
FSA Capital Management Services LLC (4)	USA	FC	100	100		FC	100	100	
FSA Capital Markets Services LLC (4)	USA	FC	100	100		FC	100	100	
FSA Global Funding LTD (3)	Cayman Islands	FC	100	100		FC	100	100	
FSA Portfolio Asset Limited (UK) (4)	UK	FC	100	100		FC	100	100	
Premier International Funding Co (5)	Cayman Islands	FC	0	0		FC	0	0	
Sumitomo Mitsui SPV	Japan	FC	100	100		FC	100	100	
Tevere Finance S.r.l (2)	Italy	FC	100	70		FC	100	70	
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) CBX.IA2 is 100% held by Dexia Crédit Local.
(2) Companies consolidated by Dexia Crediop.
(3) Companies consolidated by Dexia Holdings Inc.
(4) Companies consolidated by Dexia FP Holdings Inc.
(5) Companies consolidated by FSA Global Funding Ltd.

Méthod *FC: Fully Consolidated*
Ref *Out of scope*
S1: Cessation of activity (including dissolution, liquidation)
S2: Company deconsolidated since become below the thresholds
S3: Company transformed into a branch of Dexia Crédit Local

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

Name	Country	31/12/2015 Method	31/12/2015 Control rate	31/12/2015 Interest rate	31/12/2015 Ref	31/12/2016 Method	31/12/2016 Control rate	31/12/2016 Interest rate	31/12/2016 Ref
CBX. GEST	France	not FC	100	100					S1
DCL Evolution	France	not FC	100	100		not FC	100	100	
Dexia Certificaten Nederland BV	Netherland	not FC	100	100		not FC	100	100	
Dexia Crédito Local México SA de CV (Sofom Filial)	Mexico	not FC	100	100	S2	not FC	100	100	
Dexia Kommunalkredit Adriatic	Croatia	not FC	100	100		not FC	100	100	
Dexia Kommunalkredit Hungary	Hungary	not FC	100	100		not FC	100	100	
Dexia Kommunalkredit Romania	Romania	not FC	100	100		not FC	100	100	
Dexia Management Services Limited	UK	not FC	100	100	S2	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		not EM	25.50	25.50	
Nederlandse Standaard I.J. (in liquidation)	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

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 resulted in the entity controlling the structured entity.

e. Significant restrictions on assets and liabilities of an entity

Following IFRS 12, Dexia provides the list of significant restrictions on its ability to access or use the assets and settle the liabilities of the Group.

The information regarding financial assets pledged as collateral for liabilities or contingent liabilities is presented in note 7.3.b.

The assets guaranteeing the secured debt issued by covered bonds entities and the guaranteed investment contracts are presented in note 7.3.b.

Certain assets held by Dexia and benefiting from a credit risk hedge in the form of a guarantee or even a CDS are subject to some legal restrictions, commonly called "Representation to Hold clauses"[(1)]

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

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

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

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

The preferential rights of class B shares are presented in note 4.7.

(1) Guarantee contracts with monolines (or with banks acting as intermediary for monolines) contain "representation to hold clauses" which (more or less strictly) oblige the beneficiary to hold the guaranteed assets until the end-term of the guarantee.

f. Interest in unconsolidated structured entities

There are mainly a special purpose vehicle that was designed in order to provide clients with an access to a specific market dedicated to institutional investors and a securitization vehicle (FCC) of loans to customer. These vehicles are financed through issuance of notes.

Interests in unconsolidated structured entities (in EUR million)	Securitisation Special Purpose Entities	Other activities	Total
Derivatives	232		232
Debt securities	249	375	624
Loans and advances		19	19
TOTAL	**481**	**394**	**875**
Total assets of unconsolidated structured entities	**750**	**374**	**1,124**

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 2016.

g. Subsidiaries with minority interests that are material

Minority interests are considered material when they represent more than 5% of equity group share or when minority interests represent more then 5% of total assets.

Dexia Crediop S.p.a	31/12/2015	31/12/2016
Percentage of ownership held by minority interests	30%	30%
Principle place of business	Italy	Italy
Accumulated minority interests (in EUR million)	293	284
Profit or loss allocated to minority interests (in EUR million)	1	(5)
Dividend paid to minority interests	0	0
Assets (in EUR million)	25,181	23,404
Liabilities (in EUR million)	24,203	22,459
Equity (in EUR million)	978	945
Net banking income (in EUR million)	74	70
Profit or loss (in EUR million)	5	(17)
Total comprehensive income (in EUR million)	55	(33)

1.3. Significant items included in the statement of income

Over the year 2016, Dexia posted a net income Group share of EUR +353 million.

The *Net gains and losses on financial instruments at fair value* reached EUR +275 million. The evolution of the valuation of collateralised 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 lead to the recognition of a positive impact of EUR 258 million. This impact amounted to EUR +518 million in 2015.

Furthermore, in accordance with the provisions of the IFRS 13 accounting standard and in line with market practices, the Dexia Group calculated, from June 2015, a *Funding Valuation Adjustment (FVA)* aimed measuring the funding costs associated with non-collateralised derivatives. The impact of the FVA on the 2016 consolidated financial statements amounted to EUR –57 millions (EUR –106 millions in 2015).

Also in *Net gains and losses on financial instruments at fair value*, the Dexia Group booked in 2016, a positive result of EUR 144 million as compensation related to the payment of negative interests while the contracts or the current legislation in force, allowed not to pay them.

The evolution of own credit risk (OCR) generated a charge of EUR –36 million in the item.

The *Operating expenses*, at EUR –391 million included EUR –115 million in banking taxes and contributions to the resolution funds, in which an extraordinary contribution to the Italian Resolution Fund of EUR –25 million on top of the exceptional contribution of EUR –31 million already paid in 2015.

All of these levies and contributions were booked pursuant to the principles of the IFRIC[1]21 "Levies", applied by Dexia since 1st January 2015.

Driven by the reversal of the provision on Heta Asset Resolution AG, which amounted to EUR +136 million, the *Cost of risk* has a positive impact of EUR +140 million.

The *Net gains (losses) on other assets*, at EUR +54 million mainly benefited from the gain of EUR +50 million realised on the disposal of the CBX Tower in La Défense.

The *Result from discontinued operations, net of tax*[2] was EUR +17 million, associated with the reversal of the provision posted to cover risks related to guarantee calls following the disposal of commercial franchises.

1.4. Post-balance-sheet events

Nil

(1) IFRIC: International Financial Reporting Interpretations Committee.
(2) The standard IFRS 5 "Non-current assets held for sale and discontinued operations" specifies that adjustments in the current period to amounts previously presented in discontinued operations and directly related to the disposal of a discontinued operation in a prior period shall be classified separately in discontinued operations.

2. Notes on the assets

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

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

(in EUR million)	31/12/2015	31/12/2016
Mandatory reserve deposits with central banks	184	293
Other central banks deposits	4,651	3,929
TOTAL	**4,835**	**4,223**
of which included in cash and cash equivalents	*4,835*	*4,223*

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)	31/12/2015	31/12/2016
Loans and securities	1,376	1,366
Derivatives (see note 4.1.b)	18,800	16,415
TOTAL	**20,176**	**17,781**

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

	31/12/2015			31/12/2016		
(in EUR million)	Held for trading	Designated at fair value	Total	Held for trading	Designated at fair value	Total
Banks	0	0	0	0	0	0
Other	1,375	1	1,376	1,365	1	1,366
TOTAL	**1,375**	**1**	**1,376**	**1,365**	**1**	**1,366**

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

	31/12/2015			31/12/2016		
(in EUR million)	Held for trading	Designated at fair value	Total	Held for trading	Designated at fair value	Total
Other bonds and fixed-income instruments	1,375	0	1,375	1,365	0	1,365
Equities and other variable-income instruments	0	1	1	0	1	1
TOTAL	**1,375**	**1**	**1,376**	**1,365**	**1**	**1,366**

c. Treasury bills and other eligible bills for refinancing with central banks
Nil.

d. Securities pledged under repurchase agreements (repos)
Nil.

e. Analysis by maturity and interest rate

See notes 7.6 and 7.4.

f. Analysis of the fair value
See note 7.1.

g. 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)	31/12/2015	31/12/2016
Public sector	13,368	9,238
Banks	5,278	3,957
Other	3,413	3,329
Performing assets	**22,059**	**16,524**
Impaired bonds issued by public bodies	0	0
Other impaired bonds and fixed-income instruments	212	0
Impaired equities and other variable-income instruments	130	88
Impaired assets	**342**	**88**
TOTAL ASSETS BEFORE IMPAIRMENT	**22,401**	**16,611**
Specific impairment	(144)	(43)
TOTAL ASSETS AFTER IMPAIRMENT	**22,257**	**16,568**

b. Analysis by nature

(in EUR million)	31/12/2015	31/12/2016
Bonds issued by public bodies	10,840	7,142
Other bonds and fixed-income instruments	11,265	9,216
Equities and other variable-income instruments	296	253
TOTAL ASSETS BEFORE IMPAIRMENT	**22,401**	**16,611**
Specific impairment	(144)	(43)
TOTAL ASSETS AFTER IMPAIRMENT	**22,257**	**16,568**

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 et 7.4.

e. Analysis of fair value
See note 7.1.

f. Analysis of quality
See note 2.11.

g. Reclassification (IAS39 amended) and transfert 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)	31/12/2015	31/12/2016
Nostri accounts	644	743
Reverse repurchase agreements (reverse repos)	2,618	2,939
Other interbank loans and advances	1,703	1,243
Debt instruments	2,874	2,615
Performing assets	**7,839**	**7,540**
Impaired assets	**0**	**0**
TOTAL ASSETS BEFORE IMPAIRMENT	**7,839**	**7,540**
Collective impairment	(24)	(37)
TOTAL ASSETS AFTER IMPAIRMENT	**7,815**	**7,503**
of which included in cash and cash equivalents	*632*	*1,556*

b. Analysis by maturity and interest rate

See notes 7.6 et 7.4.

c. Analysis of fair value

See note 7.1.

d. Analysis of quality

See note 2.11.

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)	31/12/2015	31/12/2016
Public sector	80,626	77,651
Other	46,786	41,191
Performing assets	**127,412**	**118,842**
Impaired loans and advances	1,074	856
Impaired debt instruments	246	208
Impaired assets	**1,320**	**1,064**
TOTAL ASSETS BEFORE IMPAIRMENT	**128,732**	**119,906**
Specific impairment	(458)	(321)
Collective impairment	(398)	(379)
TOTAL ASSETS AFTER IMPAIRMENT	**127,876**	**119,206**
of which included in finance leases	*1,455*	*1,318*

b. Analysis by nature

(in EUR million)	31/12/2015	31/12/2016
Loans and advances	73,793	68,333
Debt instruments	53,619	50,509
Performing assets	**127,412**	**118,842**
Impaired loans and advances	1,074	856
Impaired debt instruments	246	208
Impaired assets	**1,320**	**1,064**
TOTAL ASSETS BEFORE IMPAIRMENT	**128,732**	**119,906**
Specific impairment	(458)	(321)
Collective impairment	(398)	(379)
TOTAL ASSETS AFTER IMPAIRMENT	**127,876**	**119,206**
of which included in finance leases	*1,455*	*1,318*

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)	31/12/2015	31/12/2016
Public sector	174	1,911
Other	26	7
Performing assets	**200**	**1,918**
Impaired assets	**0**	**0**
TOTAL ASSETS BEFORE IMPAIRMENT	**200**	**1,918**
Specific impairment	0	0
Collective impairment	0	0
TOTAL ASSETS AFTER IMPAIRMENT	**200**	**1,918**

b. Analysis by nature

(in EUR million)	31/12/2015	31/12/2016
Bonds issued by public bodies	158	1,911
Other bonds and fixed-income instruments	42	7
TOTAL	**200**	**1,918**

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 of 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)	31/12/2015	31/12/2016
Current tax assets	41	29
Deferred tax assets (see note 4.2)	35	32

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

(in EUR million)	31/12/2015	31/12/2016
Other assets	1,456	252
Cash collateral	36,891	36,632
TOTAL	**38,346**	**36,884**

Other assets

Analysis by nature (in EUR million)	31/12/2015	31/12/2016
Accrued income	6	0
Deferred expense	7	9
Other accounts receivable	1,425	236
Other taxes	17	6
Performing assets	**1,455**	**251**
Impaired assets	**2**	**2**
TOTAL ASSETS BEFORE IMPAIRMENT	**1,457**	**253**
Specific impairment	(2)	(2)
TOTAL ASSETS AFTER IMPAIRMENT	**1,456**	**252**

2.8. Tangible fixed assets (Items XV - Assets)

a. Net book value

(in EUR million)	Land and buildings	Office furniture and other equipment	Total
	Own use owner	Own use owner	
Acquisition cost as at 1 Jan. 2015	**396**	**78**	**474**
- Acquisitions	1	1	2
- Disposals	(49)	(23)	(72)
- Change in consolidation scope (out)	0	0	(1)
- Translation adjustments	1	3	3
Acquisition cost as at 31 Dec. 2015 (A)	**348**	**59**	**406**
Accumulated depreciation and impairment as at 1 Jan. 2015	**(77)**	**(66)**	**(143)**
- Depreciation booked	(7)	(4)	(11)
- Disposals	19	23	42
- Translation adjustments	0	(2)	(2)
Accumulated depreciation and impairment as at 31 Dec. 2015 (B)	**(66)**	**(48)**	**(114)**
Net book value as at 31 Dec. 2015 (A)+(B)	**282**	**10**	**293**

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

(1) Sale of CBX Tower in "La Défense", France.

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)

(in EUR million)	2015 Internally developed software	2015 Other intangible assets [1]	2015 Total	2016 Internally developed software	2016 Other intangible assets [1]	2016 Total
Acquisition cost as at 1st January	**158**	**136**	**294**	**91**	**113**	**204**
- Acquisitions	18	3	21	13	5	18
- Disposals	(85)	(28)	(113)			
- Translation adjustments	0	2	2		1	1
Acquisition cost as at 31 December (A)	**91**	**113**	**204**	**104**	**118**	**222**
Accumulated depreciation and impairment as at 1st January	**(146)**	**(125)**	**(271)**	**(74)**	**(103)**	**(178)**
- Booked	(6)	(6)	(12)	(7)	(6)	(13)
- Disposals	78	29	107			
- Translation adjustments	0	(2)	(2)		(1)	(1)
Accumulated depreciation and impairment as at 31 December (B)	**(74)**	**(103)**	**(178)**	**(81)**	**(110)**	**(190)**
Net book value as at 31 December (A)+(B)	**17**	**10**	**27**	**23**	**9**	**32**

(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)	**31/12/2015**	**31/12/2016**
Less than 1 year	111	81
1 year to 5 years	375	361
Over 5 years	968	873
Subtotal (A)	**1,454**	**1,316**
Unearned future finance income on finance leases (B)	0	0
Net investment in finance leases (A)-(B)	**1,454**	**1,316**

Additional information (in EUR million)	**31/12/2015**	**31/12/2016**
Estimated fair value of finance leases	1,453	1,316

Operating leases

Future net minimum lease receivables under operating leases (in EUR million)	**31/12/2015**	**31/12/2016**
Less than 1 year	5	0
1 year to 5 years	2	0
Over 5 years	1	0
TOTAL	**7**	**0**

b. Group as lessee

Finance leases

Nil

Operating leases

Future net minimum lease payments under non-cancellable operating leases (in EUR million)	**31/12/2015**	**31/12/2016**
Less than 1 year	8	20
1 year to 5 years	22	65
TOTAL	**30**	**85**
Future minimum sublease payments expected to be received under non-cancelable subleases at the balance sheet date	1	1

Lease and sublease payments recognized as expenses during the year (in EUR million)	**31/12/2015**	**31/12/2016**
Minimum lease payments	4	19
Contingent lease payments	1	1
Sublease payments	(1)	(1)
TOTAL	**4**	**19**

2.11. Quality of financial assets

(in EUR million)	**31/12/2015**	**31/12/2016**
Analysis of performing financial assets		
Interbank loans and advances	7,839	7,541
Customer loans and advances	127,412	118,842
Financial assets held to maturity	200	1,918
Financial assets available-for-sale	22,059	16,523
Fixed revenue instruments	*21,893*	*16,358*
Variable revenue instruments	*166*	*165*
Other accounts receivable (note 2.7)	1,425	236
TOTAL PERFORMING FINANCIAL ASSETS	**158,935**	**145,060**
Collective impairment	(422)	(416)
NET TOTAL PERFORMING FINANCIAL ASSETS	**158,513**	**144,644**

	Gross amount		**Specific Impairment**		**Net amount**	
(in EUR million)	**31/12/2015**	**31/12/2016**	**31/12/2015**	**31/12/2016**	**31/12/2015**	**31/12/2016**
Analysis of impaired financial assets						
Interbank loans and advances						
Customer loans and advances	1,320	1,064	(458)	(321)	862	743
Financial assets available-for-sale	342	88	(144)	(43)	198	45
Fixed revenue instruments	*212*	*0*	*(98)*	*0*	*114*	*0*
Variable revenue instruments	*130*	*88*	*(47)*	*(43)*	*83*	*45*
Other accounts receivable (note 2.7)	2	2	(2)	(2)	0	0
TOTAL	**1,664**	**1,154**	**(604)**	**(366)**	**1,060**	**788**
Analysis of performing and impaired financial assets						
Interbank loans and advances	7,839	7,541			7,839	7,541
Customer loans and advances	128,732	119,905	(458)	(321)	128,274	119,584
Financial assets held to maturity	200	1,918			200	1,918
Financial assets available-for-sale	22,401	16,611	(144)	(43)	22,257	16,568
Fixed revenue instruments	*22,105*	*16,358*	*(98)*		*22,007*	*16,358*
Variable revenue instruments	*296*	*253*	*(47)*	*(43)*	*249*	*210*
Other accounts receivable (note 2.7)	1,427	238	(2)	(2)	1,425	236
TOTAL FINANCIAL ASSETS	**160,599**	**146,213**	**(604)**	**(366)**	**159,995**	**145,847**
Collective impairment					(422)	(416)
NET TOTAL	**160,599**	**146,213**	**(604)**	**(366)**	**159,573**	**145,432**

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 1st October 2014, the Dexia Group also reclassified bonds from "Financial assets available for sale" to "Loans and advances".

	31/12/2015						
(in EUR million)	Carrying amount of assets reclassified, at the reclassification date	Carrying amount of reclassified assets at 31 December 2015	Fair value of reclassified assets at 31 December 2015	Amount not taken through profit or loss due to reclassification	Amount not taken through AFS Reserve due to reclassification	Premium/ Discount amortisation through net income	Premium/ Discount amortisation through AFS reserve
From "Financial assets held for trading" to "Loans and advances"	3,565	1,630	1,542	(88)		4	
From "Financial assets available for sale" to "Loans and advances"	65,013	47,320	43,674		(3,646)		206

	31/12/2016						
(in EUR million)	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	Fair value of reclassified assets at 31 December 2016	Amount not taken through AFS Reserve due to reclassification	Premium/ Discount amortisation through net income	Premium/ Discount amortisation through AFS reserve
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

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 2016 and in 2015, 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 2016, a EUR 18 million income was recorded as collective impairment (an income of EUR 19 million in 2015).
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 recog-

nised 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 2016 (EUR 4 million in 2015).

B. Transfers of financial assets available for sale to financial assets held to maturity

Begin December 2016, the Group transfered 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. If those financial assets had not been reclassified, a negative amount of EUR - 42 million would have been recognised for those assets, in shareholders'equity, in "Gains and losses directly recognised in equity".
An EUR 652 million gross amount of available for sale reserve was frozen and will be amortized on the residual maturity of the assets, without any impact in profit and loss. Indeed, the amortisation of the premium/discount on the asset is offset by the symetrical amortisation of the fair value reserve frozen at the time of reclassification. As at 31 December 2016, this amortization amounted to EUR 2 million.

(in EUR million)	Carrying amount of assets transfered, at the reclassification date	Carrying amount of transfered assets at 31 December 2016	Fair value of transfered 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

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.

	31/12/2015		31/12/2016	
(in EUR million)	Carrying amount of assets	Carrying amount of associated liabilities	Carrying amount of assets	Carrying amount of associated liabilities
Loans and advances not derecognised due to following transactions:				
Repurchase agreements	22,451	20,293	19,258	18,206
TOTAL	**22,451**	**20,293**	**19,258**	**18,206**
Financial assets available for sale not derecognised due to following transactions:				
Repurchase agreements	12,497	12,123	11,252	11,119
TOTAL	**12,497**	**12,123**	**11,252**	**11,119**
Financial assets held for trading not derecognised due to following transactions:				
Repurchase agreements	17	16		
TOTAL	**17**	**16**	**0**	**0**
TOTAL	**34,965**	**32,432**	**30,510**	**29,325**

3. Notes on the liabilities

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

3.0. Central banks (Item I - Liabilities)

(in EUR million)	31/12/2015	31/12/2016
Central banks [1]	15,932	690
TOTAL	**15,932**	**690**

(1) Given the scarcity of interbank liquidity, the Group still used in 2015 the refinancing facilities offered by central banks. As the situation of the Group improved in 2016, the use of these facilities from Central Banks was no longer necessary and this more expensive source of financing was therefore reduced.

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

(in EUR million)	31/12/2015	31/12/2016
Liabilities designated at fair value	1,987	1,798
Derivatives (see note 4.1)	20,792	16,878
TOTAL	**22,779**	**18,676**

a. Analysis by nature of liabilities held for trading

Nil.

b. Analysis by nature of liabilities designated at fair value

(in EUR million)	31/12/2015	31/12/2016
Non subordinated liabillities	1,987	1,798
TOTAL	**1,987**	**1,798**

c. Analysis by maturity and interest rate

See note 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 situations:

1) by Dexia Financial Products Inc and FSA Global Funding Ltd for liabilities where the hedge accounting requirements are not met or there is a risk that they will not be met, the FVO is used as an alternative in order to reduce volatility in profit or loss.

The following types of liabilities are subject to the FVO classification:

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

Regarding collaterised liabilities by assets, the DVA spread in 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 is the lower of Dexia's DVA spread and Assured Guaranty's spread.

b) FSA Global Funding fixed rate liabilities.

The own credit spread is Dexia's DVA spread.

2) in case of issuance of debt with embedded derivatives.

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

a. Analysis by nature

(in EUR million)	31/12/2015	31/12/2016
Demand deposits	8	21
Repurchase agreements	34,736	30,647
Other debts	14,035	9,570
TOTAL	**48,780**	**40,238**

b. Analysis by maturity and interest rate

See note 7.4 and 7.6.

c. Analysis of fair value

See note 7.1.

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

a. Analysis by nature

(in EUR million)	31/12/2015	31/12/2016
Demand deposits	1,533	1,955
Term deposits	5,834	4,807
Total customer deposits	**7,367**	**6,762**
Repurchase agreements	435	2,614
Other borrowings	1,596	1,402
Total customer borrowings	**2,031**	**4,016**
TOTAL	**9,399**	**10,778**

b. Analysis by maturity and interest rate

See note 7.4 and 7.6.

c. Analysis of fair value

See note 7.1.

3.4. Debt securities (Item VI - Liabilities)

a. Analysis by nature

(in EUR million)	31/12/2015	31/12/2016
Certificates of deposit	14,907	13,609
Non-convertible bonds [1]	76,625	84,915
TOTAL [2] [3]	**91,532**	**98,524**

(1) As at 31 December 2016, the amount of covered bonds was EUR 17.6 billion (EUR 19.3 billion in 2015)
(2) As at 31 December 2016, the total amount issued with the State guarantee was EUR 71.4 billion (EUR 61.2 billion in 2015). In 2016, there were no more acquisitions or subscriptions by the Group companies. In 2015, EUR 300 million have been purchased or subscribed by Group companies.
(3) The implementation of the orderly resolution plan has given rise to a dispute with a creditor of Dexia Crédit Local, formerly affiliated with the Group and currently in liquidation.
The creditor has alleged that one of the main disposals by the Group -on the terms required by the orderly resolution plan - has triggered an event of default in respect of the notes held by it.
Dexia considers this allegation to be without merit and will contest it vigorously.

b. Analysis by maturity and interest rate

See note 7.4 and 7.6.

3.5. Tax liabilities (Items VIII and IX - Liabilities)

(in EUR million)	31/12/2015	31/12/2016
Current tax liabilities	2	7
Deferred tax liabilities (see note 4.2)[1]	159	28

(1) The main source of the decrease is 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.

3.6. Accruals and other liabilities (Item X - Liabilities)

(in EUR million)	31/12/2015	31/12/2016
Other liabilities	1,323	479
Cash collateral	4,812	3,966
TOTAL	**6,135**	**4,446**

Other liabilities

(in EUR million)	31/12/2015	31/12/2016
Accrued costs	38	28
Deferred income	46	24
Grants	70	64
Other assistance received	1	0
Salaries and social charges (payable)	13	11
Liabilities related to dividends	4	4
Other taxes	21	15
Other accounts payable and other liabilities	1,130	334
TOTAL	**1,323**	**479**

3.7. Provisions (Item XIII - Liabilities)

a. Analysis by nature

(in EUR million)	31/12/2015	31/12/2016
Litigation claims [1]	329	385
Restructuring	27	24
Defined benefit plans	9	10
Other long-term employee benefits	2	5
Provision for off-balance sheet credit commitments	6	4
Onerous contracts	3	2
TOTAL	**376**	**432**

(1) This item includes a provision related to desensitisation of structured credits in France

b. Movements

(in EUR million)	Litigation claims [1]	Restru-cturing	Pensions and other employee benefits	Provision for off-balance sheet credit commit-ments	Onerous contracts	Other provisions	Total
AS AT 01/01/2015	**284**	**31**	**18**	**7**	**4**	**10**	**353**
Additions	93	3	2	0	0	0	99
Unused amounts reversed	(47)	(8)	(1)	(1)	0	(1)	(58)
Amounts utilized during the year	(6)	(6)	(1)	0	(1)	0	(15)
Actuarial gains and losses	0	0	(7)	0	0	0	(7)
Change in consolidation scope (out)	0	(1)	0	0	0	(1)	(2)
Other transfers	0	8	0	0	0	(8)	0
Translation adjustment	5	0	0	0	0	0	5
AS AT 31/12/2015	**329**	**27**	**11**	**6**	**3**	**0**	**376**

(1) We refer to the section Litigation in the chapter Risk Management of the Management Report.

(in EUR million)	Litigation claims [1]	Restru-cturing	Pensions and other employee benefits	Provision for off-balance sheet credit commit-ments	Onerous contracts	Other provisions	Total
AS AT 01/01/2016	**329**	**27**	**11**	**6**	**3**	**0**	**376**
Additions	151	3	5	1	0	0	162
Unused amounts reversed	(104)	(4)	(2)	(3)	0	0	(113)
Amounts utilized during the year	0	(2)	(3)	0	(1)	0	(6)
Acturial gains and losses	0	0	3	0	0	0	3
Other transfers	9	0	0	0	0	0	9
Translation adjustment	(1)	0	0	0	0	0	0
AS AT 31/12/2016	**385**	**24**	**15**	**4**	**2**	**0**	**432**

(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 15 million as at 31 December 2016 and 11 million as at 31 December 2015.

D. Defined contribution plan

The Belgian defined contribution plans are subject by the law to a minimum guaranteed return. As a consequence of the Belgian law of 18 December 2015, minimum returns are guaranteed by the employer as follows :

(i) for the contributions paid as from 1 January 2016, a new variable minimum return based on OLO rates, with a minimum of 1.75% and a maximum of 3.75%. In view of the low rates of the OLO in the last years, the return has been initially set to 1.75%;

(ii) for the contributions paid until end December 2015, the previously applicable legal returns (3.25% and 3.75% respectively on the employer and employee contributions) continue to apply until retirement date of the participants. In view of the minimum returns guarantees, those plans qualify as Defined Benefit plans.

3.8. Subordinated debt (Item XIV - Liabilities)

a. Analysis by nature

Convertible subordinated debt
Nil.

Non-convertible subordinated debts

(in EUR million)	31/12/2015	31/12/2016
Perpetual subordinated notes	0	0
Other subordinated notes	492	482
TOTAL	**492**	**482**

Detailed list is available on request from Investor Relations Department- E-mail : investor.relations@dexia.com - Tel. Brussels : + 32 2 213 57 39 - Tel. Paris : + 33 1 58 58 82 48

b. Analysis by maturity and interest rate
See note 7.4. and 7.6.

c. Analysis of fair value
See note 7.1.

3.9 Information on Equity

a. Capital stock

The subscribed capital of Dexia SA amounts to EUR 500,000,000 represented by 30,896,352 shares, of which 1,948,984 no per value class A shares and 28,947,368 no per value class B shares.
The Extraordinary Shareholders's meeting of 20 May 2015 decided to reverse stock split of the shares of Dexia SA with a ratio of one new share (ISIN BE 0974290224) for one thousand existing shares (ISIN BE 0003796134), decision that took effect on 4 March 2016. (see also Management report, page 28).

b. Super-subordinated perpetual note

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

As a result of errors in the past, the opening of shareholders' equity has 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.

d. Other movements

In 2015, other movements in equity amounted to EUR +26 million and are due to the review of positioning of cancelation of the results on internal transfers.
In 2016, other movements in equity amounted to EUR +1 million.

4. Other Notes on the balance sheet

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

4.1. Derivatives

a. Analysis by nature

(in EUR million)	31/12/2015 Assets	31/12/2015 Liabilities	31/12/2016 Assets	31/12/2016 Liabilities
Derivatives at fair value through profit or loss (see notes 2.1 and 3.1)	**18,800**	**20,792**	**16,415**	**16,878**
Derivatives designated as fair value hedges	5,774	26,364	6,151	29,306
Derivatives designated as cash flow hedges	229	1,128	199	1,805
Derivatives designated as portfolio hedges	669	2,486	480	2,685
Hedging derivatives	**6,672**	**29,978**	**6,830**	**33,796**
TOTAL DERIVATIVES	**25,472**	**50,770**	**23,245**	**50,674**

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

(in EUR million)	31/12/2015 Notional amount To receive	31/12/2015 Notional amount To deliver	31/12/2015 Assets	31/12/2015 Liabilities	31/12/2016 Notional amount To receive	31/12/2016 Notional amount To deliver	31/12/2016 Assets	31/12/2016 Liabilities
Interest rate derivatives	**207,905**	**207,443**	**16,971**	**19,760**	**215,260**	**214,243**	**14,990**	**15,722**
OTC options	736	481	28	19	1,239	470	7	23
OTC other	203,918	203,791	16,944	19,734	213,434	213,505	14,983	15,699
Organized market other	3,250	3,171	0	7	587	268	0	0
Foreign exchange derivatives	**17,462**	**17,351**	**1,130**	**865**	**21,862**	**22,071**	**949**	**1,001**
OTC options	0	0	0	0	302	302	54	55
OTC other	17,462	17,351	1,130	865	21,560	21,769	895	946
Credit derivatives	**4,999**	**1,537**	**699**	**166**	**4,297**	**1,355**	**475**	**155**
Credit default swap	4,999	1,537	699	166	4,297	1,355	475	155
TOTAL	**230,366**	**226,332**	**18,800**	**20,792**	**241,419**	**237,669**	**16,415**	**16,878**

c. Detail of derivatives designated as fair value hedges

(in EUR million)	31/12/2015 Notional amount To receive	31/12/2015 Notional amount To deliver	31/12/2015 Assets	31/12/2015 Liabilities	31/12/2016 Notional amount To receive	31/12/2016 Notional amount To deliver	31/12/2016 Assets	31/12/2016 Liabilities
Interest rate derivatives	**97,233**	**97,188**	**5,499**	**25,227**	**105,900**	**105,945**	**5,512**	**27,798**
OTC options	65	17	0	6	54	16	0	6
OTC other	97,168	97,170	5,499	25,221	105,846	105,929	5,512	27,792
Equity derivatives (1)	**201**	**110**	**67**	**0**	**10**	**10**	**1**	**0**
OTC options	91	0	62	0	0	0	0	0
OTC other	110	110	5	0	10	10	1	0
Foreign exchange derivatives	**8,996**	**9,007**	**207**	**1,137**	**7,851**	**7,830**	**638**	**1,509**
OTC other	8,996	9,007	207	1,137	7,851	7,830	638	1,509
TOTAL	**106,429**	**106,305**	**5,774**	**26,364**	**113,761**	**113,785**	**6,151**	**29,306**

(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)	31/12/2015 Notional amount To receive	31/12/2015 Notional amount To deliver	31/12/2015 Assets	31/12/2015 Liabilities	31/12/2016 Notional amount To receive	31/12/2016 Notional amount To deliver	31/12/2016 Assets	31/12/2016 Liabilities
Interest rate derivatives	**3,141**	**3,141**	**162**	**661**	**3,373**	**3,393**	**49**	**1,243**
OTC other	3,141	3,141	162	661	3,373	3,393	49	1,243
Foreign exchange derivatives	**1,123**	**1,283**	**66**	**468**	**1,102**	**1,088**	**150**	**563**
OTC other	1,123	1,283	66	468	1,102	1,088	150	563
TOTAL	**4,264**	**4,424**	**229**	**1,128**	**4,475**	**4,481**	**199**	**1,805**

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)	31/12/2015 Notional amount To receive	31/12/2015 Notional amount To deliver	31/12/2015 Assets	31/12/2015 Liabilities	31/12/2016 Notional amount To receive	31/12/2016 Notional amount To deliver	31/12/2016 Assets	31/12/2016 Liabilities
Portfolio fair value hedges of interest rate risk	30,196	30,196	669	2,486	16,442	16,466	480	2,685
TOTAL	**30,196**	**30,196**	**669**	**2,486**	**16,442**	**16,466**	**480**	**2,685**

4.2. Deferred taxes

a. Analysis by nature

(in EUR million)	31/12/2015	31/12/2016
Deferred tax assets	3,376	2,646
Unrecognised deferred tax assets	(3,341)	(2,614)
Recognised deferred tax assets (see note 2.6) (1)	**35**	**32**
Deferred tax liabilities (voir note 3.5) (1)	**(159)**	**(28)**
TOTAL	**(124)**	**4**

(1) Deferred tax assets and liabilities are netted out when they concern the same tax entity.

The effects of movements in deferred tax on net income and on unrealised or deferred gains and losses are analysed in note 5.11 "Income tax" and in the "Consolidated statement of comprehensive income" respectively.

b. Movements

(in EUR million)	2015	2016
AS AT 1 JANUARY	**(111)**	**(124)**
Charge/credit recognised in the income statement : "Income tax" (2)	(24)	109
Movements directly recognized in shareholders' equity	(13)	22
Translation adjustment	(3)	(2)
Other movements (1)	27	(1)
AS AT 31 DECEMBER	**(124)**	**4**

(1) In 2015, the review of the positioning of cancellation of the results on internal transfers generated a variation of EUR 25 million.
(1) In 2016, the main source of the increase is 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)	31/12/2015	31/12/2016
Deferred tax assets	3,376	2,646
Deferred tax liabilities	(159)	(28)
DEFERRED TAXES	**3,217**	**2,618**

Deferred taxes coming from assets	2015		2016	
(in EUR million)	Total	of which, change through profit or loss	Total	of which, change through profit or loss
Loans (and loan loss provisions)	(1,382)	107	(3,249)	(707)
Securities	(1,351)	223	(1,889)	(659)
Derivatives	(1,522)	(185)	(1,236)	96
Tangible fixed assets and intangible assets	(10)	1	3	12
Accruals and other assets	23	2	4	(2)
TOTAL	**(4,241)**	**148**	**(6,367)**	**(1,260)**

Deferred taxes coming from liabilities	2015		2016	
(in EUR million)	Total	of which, change through profit or loss	Total	of which, change through profit or loss
Derivatives	3,590	114	5,062	339
Borrowings, deposits and debt securities	1,472	(275)	1,407	7
Provisions	229	153	234	5
Pensions	5	1	5	0
Non-deductible provisions	0	(22)	(12)	(12)
Accruals and other liabilities	(126)	(24)	(115)	(2)
TOTAL	**5,171**	**(52)**	**6,581**	**337**

Deferred taxes coming from other elements	2015		2016	
(in EUR million)	Total	of which, change through profit or loss	Total	of which, change through profit or loss
Tax losses carried forward	2,295	(835)	2,405	141
Entity with special tax status	(6)	9	(1)	5
TOTAL	**2,288**	**(826)**	**2,404**	**146**
TOTAL DEFERRED TAXES	**3,217**		**2,618**	

d. Expiry date of unrecognised deferred tax assets

(in EUR million)	31/12/2015		
Nature	**Between 1 to 5 years**	**Unlimited maturity**	**Total**
Temporary difference	0	(1,057)	(1,057)
Tax losses carried forward[1]	(354)	(1,931)	(2,285)
TAX CREDIT CARRIED FORWARD	**(354)**	**(2,987)**	**(3,341)**

(1) Figures by expiry date have been restated.

(in EUR million)	31/12/2016			
Nature	**Between 1 to 5 years**	**Over 5 years**	**Unlimited maturity**	**Total**
Temporary difference	0	0	(210)	(210)
Tax losses carried forward	(416)	(129)	(1,860)	(2,405)
TOTAL	**(416)**	**(129)**	**(2,069)**	**(2,614)**

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 and the amounts are non-significant.
The column "Impact of Master Netting agreements and similar agreements" includes the amounts of financial instruments that are subject to an enforceable master netting arrangement or similar agreement but which do not meet the offsetting criteria defined by IAS 32. This is the case of Dexia's transactions that are subject to ISDA Master Netting Agreements and Global Master Repurchase Agreements for which offsetting can only be performed in case of default, insolvency or bankruptcy of one of the counterparties.

The Dexia Group Master Netting Agreement ("DGMNA") dated as of 2 November 2009 had been concluded between Dexia SA/NV, Banque Internationale à Luxembourg S.A. (formerly known as Dexia Banque Internationale à Luxembourg S.A.), Belfius Bank SA/NV (formerly known as Dexia Bank Belgium SA/NV), Dexia Crédit Local S.A. and Dexia Crediop SpA. The DGMNA permits netting or "Set-Off" amounts owed under transactions governed by different agreements, including one or more ISDA Master agreements or other trading agreements ("Principal Agreements") between the parties to the DGMNA. The DGMNA essentially aims at allowing netting in the event of a default on behalf of one of the parties, and therefore permits netting only when the transactions under the Principal Agreements are accelerated, terminated, liquidated or canceled (a so-called "Close Out" situation).
When a party is in default under the DGMNA, each other non defaulting Party may elect to Close Out all of the transactions under each Principal Agreement to which such non defaulting Party is a party.
Banque Internationale à Luxembourg and Belfius Banque SA/NV are no longer part of the DGMNA since 29 January 2014, respectively 16 November 2015.

The columns "Cash collateral" and "Financial instruments received or given as collateral" disclose the amounts related to financial collateral. They mainly include Dexia's guarantee deposits and securities received or given as collateral and disclosed at their fair value. These guarantees can only be exercised in case of default, insolvency or bankruptcy of one of the counterparties.
Dexia includes instruments at their recognized amounts, however the amount of collateral is limited to the amount of the guaranteed asset or liability.

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

	31/12/2015						
	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Related amounts not set off on the balance sheet			Net amounts
(in EUR million)				Impact of Master Netting Agreements and similar agreements	Cash collateral received	Financial instruments received as collateral	
Derivatives	23,997	(12)	23,985	(14,510)	(2,850)	0	6,626
Reverse repurchase and similar agreements	2,337	0	2,337	0	(22)	(2,315)	0
TOTAL FINANCIAL ASSETS IN SCOPE OF OFFSETTING DISCLOSURES	**26,334**	**(12)**	**26,322**	**(14,510)**	**(2,872)**	**(2,315)**	**6,626**

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

	31/12/2015						
	Gross amounts of financial liabilities	Gross amounts set off on the balance sheet	Net amounts of financial liabilities presented on the balance sheet	Related amounts not set off on the balance sheet			Net amounts
(in EUR million)				Impact of Master Netting Agreements and similar agreements	Cash collateral given	Financial instruments given as collateral	
Derivatives	50,619	(12)	50,607	(14,510)	(33,095)	(609)	2,394
Repurchase and similar agreements	34,024	0	34,024	0	(1,041)	(32,579)	404
TOTAL FINANCIAL LIABILITIES IN SCOPE OF OFFSETTING DISCLOSURES	**84,643**	**(12)**	**84,631**	**(14,510)**	**(34,136)**	**(33,188)**	**2,798**

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

(in EUR million)	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	
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
TOTAL FINANCIAL ASSETS IN SCOPE OF OFFSETTING DISCLOSURES	**24,805**	**(324)**	**24,481**	**(13,069)**	**(2,564)**	**(2,442)**	**6,406**

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

(in EUR million)	31/12/2016						
	Gross amounts of financial liabilities	Gross amounts set off on the balance sheet	Net amounts of financial liabilities presented on the balance sheet	Related amounts not set off on the balance sheet			Net amounts
				Impact of Master Netting Agreements and similar agreements	Cash collateral given	Financial instruments given as collateral	
Derivatives	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
TOTAL FINANCIAL LIABILITIES IN SCOPE OF OFFSETTING DISCLOSURES	**83,155**	**(324)**	**82,831**	**(13,069)**	**(35,032)**	**(30,372)**	**4,359**

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)	2015	2016
Short-term benefits [1]	3	4
Termination benefits	0	1

(*) 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

2011 Temporary Guarantee Agreement

On 16 December 2011, the French, Belgian and Luxembourg States and Dexia and Dexia Crédit Local ("DCL") entered into a First Demand Guarantee Agreement.

Pursuant to IT, the three States guaranteed severally, but not jointly, the performance by Dexia and DCL of their repayment obligations resulting from certain financings provided by central banks, credit institutions and other institutional or professional investors, provided that these obligations arise from certain financings contracted or issued (with a maturity of up to three years) between 21 December 2011 and 31 May 2012. This initial deadline has been extended (i) until 30 September 2012 with the consent of the Parties and of the European Commission pursuant to an Amendment n°1 of 30 May 2012; and (ii) until 31 January 2013 pursuant to an Amendment n°3 of 28 September 2012.

The States' several but not joint guarantee pursuant to this Agreement may not exceed a maximum limit of EUR 45 billion in principal (increased up to EUR 55 billion pursuant to Amendment n°2 of 5 June 2012), it being understood that the amounts which are so capped include outstanding guaranteed obligations at any moment during the term of this Agreement but exclude outstanding guaranteed obligations pursuant to the 2008 Guarantee Agreement described below.
On 21 December 2011, the European Commission authorised this guarantee mechanism on a temporary basis for a period until 31 May 2012, until the Commission has adopted a final decision within the frame of a new State aid investigation procedure. This decision was adopted on 28 December 2012. The temporary guarantee mechanism was authorised until the entry into force of the 2013 Guarantee Agreement described below.

As at 28 August 2015, guaranteed obligations pursuant to the 2011 Guarantee Agreement were entirely repaid, such that there is no outstanding guaranteed obligation pursuant to this guarantee as at 31 December 2015.

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 2016, the total outstanding amount of obligations guaranteed by the States pursuant to the 2013 Guarantee Agreement was EUR 71 billion. In 2016, Dexia paid a total monthly remuneration of EUR 32 million to the States for these guarantees.

2008 Guarantee Agreement
As at 28 May 2014, guaranteed obligations pursuant to the 2008 Guarantee Agreement, as amended by the three States (as described in previous annual reports of Dexia), were entirely repaid, such that there is no outstanding guarantee obligation pursuant to this guarantee.

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. This recourse of the States can be exercised either in cash or in the form of instruments representing Tier 1 capital of Dexia (ordinary shares or profit shares). The terms of the profit shares were approved by the Extraordinary Shareholders' Meeting of Dexia on 24 June 2009 and are set out in Article 4bis of the Articles of Association of Dexia.
Dexia issued subscription rights (warrants) to each of the States for a period of 5 years, to allow the States to be compensated, through the issuance of new shares, following the contribution in kind to Dexia of their right of reimbursement. The warrants issued to the Belgian and French States at the general meeting of shareholders of 11 May 2011, expired on 10 May 2016. The States and Dexia decided not to reissue the warrants because the right for the States and Dexia to seek repayment of their debt in share following a guarantee call cannot be excluded but became strictly theoretical as a result of the sale of the Put Portfolio Assets. The expiry of the warrants will not affect the right of the States to exercise as the case may be, their right to remedies against Dexia in the form of a "Capital Conversion" as defined and foreseen by 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 relating to the re-issue of the warrants, both available on the website of Dexia (www.dexia.com).

d. Transactions with SFPI and Belfius

An agreement was concluded on 23 December 2016 between Dexia, Belfius Bank and the Société Fédérale de Participations et d'Investissement (SFPI). It deals in particular with arranging certain transactions relating to financial instruments (particularly derivatives) and puts an end to certain issues which existed between Belfius Bank and Dexia. All the transactions referred to in this agreement were concluded at market conditions, as they prevailed upon finalisation of that agreement, and in the ordinary course of the activities of Dexia and Belfius Bank. They fall within the framework of a general policy of simplification and the continued unwinding of relations between Dexia and its former subsidiary, and thus aim to rationalise those links, in the spirit of the orderly resolution guiding Dexia's strategy since 2012. The impact of the financial transactions covered by this agreement on the Dexia financial statements for 2016 is marginal.

4.5. Information on disposals groups held for sale and discontinued operations

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

The group reached the target scope as set out in the Group's orderly resolution plan in the first quarter 2014.
There was no disposal group held for sale as at 31 december 2015 and as at 31 december 2016.

b. Income Statement

31/12/2015	Denizbank
(in EUR million)	
Result on disposal	(17)
Income from discontinued operations, net of tax	**(17)**
Group share	(17)
Earning per share	
- basic	(8.52)
- diluted	(0.54)

31/12/2016 (in EUR million)	BIL	Dexia Asset Manage-ment	Popular Banca Privada	Total
Result on disposal	3	4	10	17
Income from discontinued operations, net of tax	**3**	**4**	**10**	**17**
Group share				17
Earning per share				
- basic				8.58
- diluted				0.54

4.6. Share-based payments

Dexia stock option plans (number of options)	2015	2016
Outstanding at the beginning of the period	42,088,083	32,096,802
Expired during the period	(9,991,281)	(10,128,349)
Outstanding at the end of the period	**32,096,802**	**21,968,453**
Exercisable at the end of the period	**32,096,802**	**21,968,453**

2015				2016			
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	2.49	9.12 - 10.27	7,553,684	9.12	1.49
10.74 - 12.35	3,531,624	11.44	2.49	10.74 - 12.35	3,531,624	11.44	1.49
16.47 - 19.21	10,128,349	16.87	0.51	16.47 - 19.21	0	0	0
19.21 - 21.02	10,883,145	21.02	1.50	19.21 - 21.02	10,883,145	21.02	0.50
TOTAL	32,096,802			TOTAL	21,968,453		

Since 2008 no option has been exerciced as they are out of the money.

4.7. Capital stock

	2015		2016	
	Class A	Class B [1]	Class A	Class B [1]
Number of shares authorized	1,948,984,474	28,947,368,421	1,948,984	28,947,368
Number of shares issued and fully paid	1,948,984,474	28,947,368,421	1,948,984	28,947,368
Number of shares issued and not fully paid				
Nominal value per share	**no nominal value**	**no nominal value**	**no nominal value**	**no nominal value**
Outstanding as at 1 Jan.	30,896,352,895		30,896,352,895	
Reverse stock split [2]			/1000	
Outstanding as at 31 Dec.	30,896,352,895		30,896,352	
Rights, preferences and restrictions, including restrictions on the distribution of dividends and the repayment of capital		28,947,368,421		28,947,368
Number of treasury shares	324,633		323	
Nombre d'actions réservées pour émission dans le cadre de stock options et de contrats de vente d'actions	324,633		323	

(1) see below the description of Class B Shares
(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 (see also the Management Report, page 28).
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

See note 4.4.c Transactions with the Belgian, French and Luxembourg States
See note 4.6 Share-based payments

Economic rights of Class A and Class B Shares

Dexia share capital is currently represented by 1,948,984 Class A shares and 28,947,368 preference Class B shares. The Class B preference shares were issued on 21 December 2012 on the occasion of the EUR 5.5 billion capital increase reserved for the Belgian and French States (the "States"). In particular, the issuance of these preference shares met the requirements of burden sharing, i.e. the principle of full contribution from historical shareholders to the resolution effort stated by the European Commission by virtue of the rules governing State aid. In fact, the European Commission indicated to the States that it would only approve the Dexia Group's definitive orderly resolution plan insofar as it provided for a complete economic eviction of the existing shareholders within the framework of the recapitalisation of Dexia by the States.

The preferential rights attached to the Class B shares (broken down into Sub-Classes B1, B2 and B3) grant a priority to the States on distributions of dividends and liquidation surpluses of the Company, and fall within the scope of Article 4ter2 of the Articles of Association, summarised in the notice of convocation to the extraordinary shareholders' meeting held on 21 December 2012 (available on the Company's web site at the following address http://www.dexia.com/EN/shareholder_investor/general_meeting/Docs_AG_dec_2012/Documents/AGE_21122012_Brochure%20EN.pdf). Considering these preferential rights, the prospects of a distribution of dividends, repayments of capital or liquidation surpluses for Class A shares are practically nil.

(i) If the Company were to distribute a dividend [(1)], it would be attributed as a priority to the holders of Class B1 and B2 shares up to an amount of 8% of their subscription price (i.e. 8% of EUR 5.5 billion, or EUR 440 million per annum). Any balance would then be attributed (i) to the holders of ordinary Class A shares and Class B3 shares up to the amount distributed to the holders of Class B1 and B2 shares in Classes and (ii) beyond that amount, to the holders of Class A and B shares, proportionally to the number of shares they hold. Amounts not paid to the holders of Class B1 and B2 shares by virtue of the annual preferential distribution of dividends may be accumulated as a liquidation supplement. This liquidation supplement goes as a priority to the holders of Class B1 and B2 shares. In the case of reclassification into Class B2 shares, the liquidation supplement acquired during the period in which the share was classified in Class B1 is maintained, whilst the amounts not paid by virtue of the preferential dividends at the date of the reclassification as Class B2 shares are no longer added to the amount for the liquidation supplement.

(ii) In the case of liquidation of Dexia, liquidation distributions would be attributed as a priority to the holders of Class B1 and B2 shares up to the amount of their subscription price (EUR 5.5 billion), increased by the liquidation supplement and subject to the deduction, as the case may be, of amounts already repaid by virtue of capital reduction. Any balance would then be attributed in the following order of priority: (i) to the holders of Class A and B3 shares, up to an amount representing their right to capital repayment, (ii) to the holders of Class A and B3 shares, up to an amount corresponding to the liquidation supplement paid per share in Class B1, and to the holders of shares in Class B2, up to an amount corresponding to the difference between the liquidation supplement paid per Class B1 share and the liquidation supplement paid per Class B2 share, and (iii) to the holders of Class A and B shares, proportionally to the number of shares they hold.

(iii) In the case of a capital reduction with a view to covering losses or to creating reserves, this would be attributed as a priority to ordinary Class A and B3 shares, in the sense that the right to capital repayment associated with ordinary shares would be reduced by the same amount (it being understood that the total amount of the rights to capital repayment of all the shares in a given class will always remain strictly positive). Otherwise, the rights attached to the shares would not be affected. Such a capital reduction with a view to covering the Company's losses was undertaken at the shareholders' meeting held on 8 May 2013 [(2)].

A mechanism for the reclassification of Class B1 shares into Class B2 or B3 shares was introduced in order to take account of the regulatory treatment of Dexia's equity capital. In fact, the European Union Regulation dated 26 June 2013 (the "CRR Regulation") determining the requirements with regard to equity capital applicable to Dexia and to its main banking subsidiaries allows for preference shares or other securities representing the capital of a credit institution integrating preferential rights to be treated as Tier 1 equity capital (Common Equity Tier 1 or "CET1") by virtue of a transitional regime which expires on 31 December 2017. At the end of that period, Class B1 shares will constitute Tier 2 capital instruments ("Tier 2"), whilst ordinary shares (Class A shares or Class B3 shares) will constitute CET1 instruments. Anticipating the regulatory treatment of Class B1 shares in Tier 2 as at 1 January 2018, statutory provisions provide the possibility of reclassifying Class B1 shares, on one or more occasions, into Class B2 and/or Class B3 shares, to the extent necessary for Dexia to meet the regulatory requirements applicable with regard to equity capital. Indeed, the Articles of Association allow a reclassification "of type 1" (into Class B2 shares) to the extent necessary for reconstitution of the consolidated Tier 1 ratio at a level of 6%, and a reclassification "of type 2" (into Class B3 shares) to the extent necessary for reconstitution of the consolidated CET 1 ratio at a level of 5.125%.

If there is no reclassification of Class B1 (and/or B2) shares into in Class B3 shares, the Class B1 and B2 shares will, beyond 31 December 2017, retain their preferential right to the distribution of dividends as currently provided in the Dexia Articles of Association (i.e. 8% of the subscription price (EUR 5.5 billion) on an annual basis). If Dexia were to be liquidated, the holders of Class B1 and B2 shares would retain their preferential right to the liquidation surplus up to the amount of their subscription price, increased by the liquidation supplement (and subject to deduction, as the case may be, of amounts already repaid by virtue of the capital reduction).

(1) A dividend distribution by Dexia seems in the current state of affairs to be impossible, particularly in view of the undertakings made by the States within the framework of the Dexia orderly resolution plan. These in fact prohibit Dexia (without time limit) from making discretionary coupon payments on Tier 1 and Tier 2 hybrid instruments, and approving any dividend distribution by a subsidiary when such a distribution would involve discretionary coupon payments on Tier 1 and Tier 2 hybrid instruments. To date, two AT1 instruments exist, for which coupon payments are discretionary, one with Dexia as the issuer (the securities were issued by DFL, which Dexia absorbed in 2012) and the other issued by DCL. The conditions of those two issues provide that if the issuer distributes dividends to their shareholders, it must pay the coupon on hybrids – which is moreover forbidden by virtue of the orderly resolution plan. So there is a prohibition on Dexia distributing dividends to its shareholders, and on DCL distributing dividends to Dexia (which in itself destroys Dexia's dividend capacity). In addition, the Commission later prohibited Dexia from repurchasing hybrid securities, which excludes any dividend distribution.

(2) The amount of the loss carried forward was EUR 5.5 billion. The capital reduction was attributed as a priority to the shares in Class A, in the sense that the right to capital repayment within the context of a liquidation henceforth amounts to an overall sum of EUR 1 for all the shares in Class A. The other rights attached to the shares in Class A (such as the right to vote and the right to receive a dividend) were not affected by that capital reduction.

In the case of partial reclassification of the Class B1 (and/or B2) shares into Class B3 shares, the in Class B1 and B2 shares would, beyond 31 December 2017, retain the preferential rights as currently described in the Dexia Articles of Association, whilst the (reclassified) Class B3 shares would have rights similar to Class A shares, subject to the proportion of the capital of € 500 million which they represent with the remaining Class B1 and/or B2 shares.
On 12 December 2016, the European Central Bank ("ECB") notified Dexia of the qualitative and quantitative regulatory requirements regarding equity capital which are applicable as from 1 January 2017 in accordance with the CRR Regulation. Within that framework, the ECB asked Dexia to present a plan for 30 June 2017 with regard to the reclassification of all the Class B1 preference shares into ordinary Class B3 shares, with effect as at 1 January 2018, i.e. on the expiry of the transitional regime referred to in Article 483 (i) CRR (cf. Dexia Press Release dated 15 December 2016).
Nevertheless, an integral reclassification of the Class B1 shares into Class B3 shares would risk a conflict with the aforementioned principle of burden sharing, even if any distribution of dividends or attribution of liquidation surplus remains extremely theoretical and subject to numerous variables likely to evolve on a very distant horizon from a liquidation of Dexia.
The matter is therefore being carefully examined, to the extent that Dexia must ensure observance both of the equity capital requirements imposed by the ECB and the requirements of burden sharing imposed by the European Commission.

4.8. Exchange rates

The primary exchange rates are presented in the following schedule.

		31/12/2015		31/12/2016	
		Closing rate [1]	Average rate [2]	Closing rate [1]	Average rate [2]
Australian dollar	AUD	1.4899	1.4819	1.4629	1.4854
Canadian dollar	CAD	1.5111	1.4263	1.4201	1.4584
Swiss Franc	CHF	1.0859	1.0643	1.0739	1.0901
Czech Koruna	CZK	27.0210	27.2674	27.0210	27.0388
Danish Krone	DKK	7.4629	7.4605	7.4348	7.4446
British Pound Sterling	GBP	0.7384	0.7246	0.8552	0.8231
Hong-Kong dollar	HKD	8.4479	8.5646	8.2011	8.5665
Hungarian forint	HUF	315.9700	309.4954	308.5850	311.5592
Shekel	ILS	4.2436	4.2949	4.0677	4.2261
Japenese Yen	JPY	130.8750	133.5942	123.4200	120.4517
Won	KRW	1281.6800	1254.2000	1272.9950	1280.1900
Mexican Peso	MXN	18.8198	17.6588	21.8382	20.6331
Norwegian Krone	NOK	9.5923	8.9808	9.0930	9.2558
New Zealand dollar	NZD	1.5891	1.5959	1.5179	1.5825
Swedish Krona	SEK	9.1675	9.3332	9.5573	9.4743
Singapore dollar	SGD	1.5422	1.5224	1.5270	1.5245
New Turkish Lira	TRY	3.1710	3.0373	3.7200	3.3406
US Dollar	USD	1.0901	1.1049	1.0576	1.1037

(1) Rate observed on Reuters at 4:45 pm on the last business day of the month of December.
(2) Average of the closing rates used by the Dexia group.

4.9. 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

AS AT 1 JANUARY 2015	455
- Net income for the period	6
- Other	(15)
AS AT 31 DECEMBER 2015	446
AS AT 1 JANUARY 2016	446
- Net income for the period	(1)
AS AT 31 DECEMBER 2016 [1]	**445**

(1) This amount includes EUR 56 million of undated subordinated non-cumulative Notes issued by Dexia Crédit Local, EUR 318 million of minority interests in Dexia Crediop and EUR 69 million of minority interest 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 - Income statement)

(in EUR million)	2015	2016
Interest income	**10,751**	**10,016**
a) Interest income on assets not measured at fair value	**4,441**	**3,932**
Cash and central banks	15	22
Interbank loans and advances	151	124
Customer loans and advances	3,503	3,154
Financial assets available for sale	719	543
Financial assets held to maturity	11	50
Impaired assets	4	7
Other	38	32
b) Interest income on assets measured at fair value	**6,225**	**5,755**
Loans and securities held for trading	69	24
Derivatives held for trading	4,137	3,613
Hedging derivatives	2,019	2,118
c) Positive interests on financial liabilities	**85**	**330**
Positive interests on financial liabilities (2)	85	330
Interest expense	**(10,492)**	**(9,818)**
a) Interest expense on liabilities not measured at fair value	**(2,088)**	**(2,054)**
Interbank borrowings and deposits	(469)	(422)
Customer borrowings and deposits	(71)	(73)
Debt securities	(1,500)	(1,519)
Subordinated debt	(4)	4
Amounts covered by sovereign guarantees (1)	(38)	(35)
Other	(6)	(9)
b) Interest expense on liabilities measured at fair value	**(8,345)**	**(7,465)**
Liabilities designated at fair value	(89)	(73)
Derivatives held for trading	(4,434)	(3,653)
Hedging derivatives	(3,822)	(3,739)
c) Negative interests on financial assets	**(59)**	**(299)**
Negative interests on financial assets (2)	(59)	(299)
Net interest income	**259**	**198**

(1) This item includes fees paid to the States for the guarantees they granted to Dexia's debt. See also note 4.4.c Related-party transactions - Transactions with the Belgian, French and Luxembourg States.

(2) In the current environment of very low or negative rates, Dexia decided to present separately positive interests on financial liabilities and negative interests on financial assets.

5.2. Fees and Commissions (Items III and IV - Income statement)

	2015			2016		
(in EUR million)	Income	Expense	Net	Income	Expense	Net
Lending activity	10	(4)	6	8	(3)	5
Purchase and sale of securities	0	(3)	(2)	0	(2)	(2)
Payment services	0	(3)	(3)	1	(2)	(1)
Commissions paid to business providers	0	(1)	(1)	0	0	0
Services on securities other than custodial services	0	(2)	(2)	0	(2)	(2)
Custodial services	3	(1)	2	5	(1)	4
Issuance and placement of securities	2	0	2	0	0	0
Intermediation on repo and reverse repo	0	(1)	(1)	0	(4)	(4)
Other	5	(3)	3	4	(2)	2
TOTAL	**21**	**(16)**	**5**	**18**	**(18)**	**0**

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 (Item V - Income statement)

(in EUR million)	2015	2016
Net trading income	46	210
Net result of hedge accounting	489	209
Net result of financial instruments designated at fair value through profit or loss [1]	21	34
Change in own credit risk [2]	64	(36)
Funding costs associated with non-collateralised derivatives (FVA) [3][4]	(106)	(57)
Change in fair value of derivatives attributable to counterparty risk (credit value adjustment) [3]	77	11
Change in fair value of derivatives attributable to own credit risk (debit value adjustment) [3]	(30)	(52)
Net result of foreign exchange transactions	(38)	(44)
TOTAL	**524**	**275**
(1) among which trading derivatives included in a fair value option strategy	(32)	(50)

(2) See also note 7.2.h. Credit risk on financial liabilities designated at fair value through profit or loss
(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)	2015	2016
Fair value hedges	**496**	**206**
Fair value changes of the hedged item attributable to the hedged risk	(1,157)	1,660
Fair value changes of the hedging derivatives	1,653	(1,454)
Cash flow hedges	**(3)**	**2**
Fair value changes of the hedging derivatives – ineffective portion	(3)	2
Portfolio hedge	**(3)**	**1**
Fair value changes of the hedged item	(214)	175
Fair value changes of the hedging derivatives	211	(174)
TOTAL	**489**	**209**
Discontinuation of cash flow hedge accounting (cash flows still expected to occur) - amounts recorded in interest margin	0	2

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 - Income statement)

(in EUR million)	2015	2016
Dividends on securities available for sale	2	13
Net gain (loss) on disposals of financial assets available for sale [1]	54	13
Impairment of variable-income securities available for sale	(6)	(2)
Net gain (loss) on disposals of loans and advances	(6)	15
Net gain (loss) on redemption of debt securities [2]	41	36
TOTAL	**85**	**76**

(1) Except for gains and losses on impaired fixed-income securities, which are included in cost of risk
(2) 2015: Of which EUR +102 million as adjustment following the inventory process for the cancellation of bearer shares in 2015, causing an over-valuation to appear in the item "Other debts" and EUR -52 million for the recognition of the exercise price of the put option to purchase Banco de Sabadell's stake in Dexia Sabadell, following the decision of the Court of Arbitration in Madrid.
2016: Of which EUR + 38 million due to redemption of Euro Medium Term Notes

5.5. Other income (Item VII - Income statement)

(in EUR million)	2015	2016
Operating taxes	0	2
Rental income	3	3
Other banking income	0	1
Litigations [1]	45	62
Other income	2	13
TOTAL	**51**	**82**

(1) Structured loans are regularly analyzed 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 - Income statement)

(in EUR million)	2015	2016
Provisions for litigations [1]	(86)	(110)
Operating taxes	(1)	0
Other expenses	(4)	(15)
TOTAL	**(90)**	**(125)**

(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 - Income statement)

(in EUR million)	2015	2016
Payroll costs	(172)	(163)
General and administrative expenses	(276)	(228)
TOTAL	**(447)**	**(391)**

a. Payroll Costs

(in EUR million)	2015	2016
Compensation and salary expense	(116)	(108)
Social security and insurance expense	(37)	(37)
Employee benefits	(11)	(11)
Restructuring costs	4	0
Other	(12)	(7)
TOTAL	**(172)**	**(163)**

b. Employee information

	2015	2016
(Average full time equivalent)	Fully consolidated	Fully consolidated
Executive staff	36	37
Administrative staff	1,157	1,097
Non-administrative and other personnel	10	14
TOTAL	**1,203**	**1,148**

	2015							
(Average full time equivalent)	Belgium	France	Italy	Spain [1]	Other Europe [1]	USA	Other non Europe	Total
Executive staff	14	7	2	1	5	3	4	36
Administrative staff	67	668	119	33	111	116	43	1,157
Non-administrative and other personnel	0	0	0	1	0	9	0	10
TOTAL	**81**	**675**	**121**	**35**	**116**	**128**	**47**	**1,203**

(1) The figures 2015 have been restated in order to include Portugal in the column Other Europe, while the relative figures were previously aggregated with Spain.

	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
TOTAL	**68**	**653**	**113**	**32**	**116**	**119**	**47**	**1,148**

c. General and administrative expenses

(in EUR million)	2015	2016
Cost of premises	(5)	(5)
Rent expense [1]	(7)	(13)
Fees	(49)	(66)
Marketing, advertising and public relations	(1)	(1)
IT expense	(39)	(33)
Software, research and development	(5)	(6)
Maintenance and repair	(4)	(2)
Restructuring costs	3	1
Insurance (except related to pensions)	(9)	(6)
Stamp duty	0	(1)
Other taxes [2]	(134)	(118)
Other general and administrative expenses	(25)	20
TOTAL	**(276)**	**(228)**

(1) This amount does not include IT equipment rental expenses, which are included in the «IT expense» line
(2) 2015:This item includes a charge of EUR -50 million representing the first contribution to the Single Resolution Fund (SRF) introduced by the European authorities within the framework of the Single Supervisory Mechanism, an amount of EUR - 31 million representing an exceptional contribution for Italian Banks rescue, an amount of EUR -14 million representing the annual levy for systemic risk and an amount of EUR -28 million representing the full amount of Dexia multi-year contribution to the local authority and hospital sector support funds introduced in France.
2016: This item includes a charge of EUR -63 million representing 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.

5.8. Depreciation, amortisation and impairment of tangible fixed assets and intangible assets (Item XI - Income Statement)

Depreciation and amortisation (in EUR million)	2015	2016
Depreciation of land and buildings, office furniture and other equipment (1)	(7)	0
Depreciation of other tangible fixed assets	(4)	(3)
Amortization of intangible assets	(12)	(12)
TOTAL	**(23)**	**(16)**

(1) Disposal of Dexia Tower in La Défense

Impairment (in EUR million)	2015	2016
Impairment on assets held for sale	1	0
TOTAL	**1**	**0**

Losses or gains (in EUR million)	2015	2016
TOTAL [1]	**(1)**	**0**

(1) The result of the disposal of Dexia Tower in La Défense is included in the category XVI. Net gains (losses) on other assets.

TOTAL	**(23)**	**(16)**

5.9. Cost of risk (Item XIII - Income Statement)

(in EUR million)	2015			2016		
	Collective impairment	Specific impairment and losses	TOTAL	Collective impairment	Specific impairment and losses	TOTAL
Credit (loans, commitments and securities held to maturity)	91	(152)	(61)	10	59	69
Fixed-income securities available for sale		(113)	(113)		71	71
TOTAL	**91**	**(265)**	**(174)**	**10**	**130**	**140**

Detail of collective and specific impairments

Collective impairment (in EUR million)	2015			2016		
	Additions	Recoveries	Total	Additions	Recoveries	Total
Loans and securities held to maturity	(82)	173	91	(96)	105	10
TOTAL	**(82)**	**173**	**91**	**(96)**	**105**	**10**

Specific impairment (in EUR million)	2015				
	Additions	Recoveries	Losses	Collections	Total
Customer loans and advances	(182)	44	(11)	0	(149)
Accruals and other assets	0	0	(5)	0	(5)
Off-balance sheet commitments	0	1	0	0	1
TOTAL CREDIT	**(182)**	**45**	**(16)**	**0**	**(152)**
FIXED-INCOME SECURITIES AVAILABLE FOR SALE	**(107)**	**54**	**(60)**	**0**	**(113)**
TOTAL	**(289)**	**99**	**(76)**	**0**	**(265)**

Specific impairment (in EUR million)	2016				
	Additions	Recoveries	Losses	Collections	Total
Customer loans and advances	(136)	275	(77)	0	62
Off-balance sheet commitments	(6)	3	0	0	(3)
TOTAL CREDIT	**(142)**	**278**	**(77)**	**0**	**59**
FIXED-INCOME SECURITIES AVAILABLE FOR SALE	**0**	**98**	**(26)**	**0**	**72**
TOTAL	**(142)**	**376**	**(103)**	**0**	**130**

5.10. Net gains (losses) on other assets (Item XVI - Income statement)

(in EUR million)	2015	2016
Net gains (losses) on disposals of buildings [1]	15	1
Gains/losses on the disposal of assets held for sale	0	55
Net gains (losses) on disposals of consolidated equity investments	0	(2)
TOTAL	**14**	**54**

(1) 2015: Capital gain on the sale of Dexia Crediop's operating building.
(2) 2016: Capital gain of EUR + 50 million on the sale of the Dexia Tower in La Défense.

5.11. Income tax (Item XIX - Income statement)

Detail of tax expense (in EUR million)	2015	2016
Income tax on current year	0	(19)
Deferred taxes on current year [1]	(24)	109
TAX ON CURRENT YEAR RESULT (A)	**(24)**	**90**
Provision for tax litigations	6	(47)
OTHER TAX EXPENSE (B)	**6**	**(47)**
TOTAL (A) + (B)	**(18)**	**42**

(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 2015 and 2016 was 33.99%.

Dexia effective tax rate was respectively 11.93 % in 2015 and -30.86% for 2016.

The difference between the standard and the effective tax rate can be analysed as follow:

(in EUR million)	2015	2016
Net income before tax	**204**	**293**
Tax base	**204**	**293**
Statutory tax rate	33.99 %	33.99 %
Theoretical corporate income tax at the standard rate	**(69)**	**(100)**
Impact of differences between foreign tax rates and the standard Belgian tax rate	35	(275)
Tax effect of non-deductible expenses	(150)	(307)
Tax effect of non-taxable income	195	185
Impact of items taxed at a reduced rate	(35)	27
Other additional taxes or tax savings [1]	(835)	(302)
Tax effect from reassessment of unrecognised deferred tax assets	836	862
Tax on current year	**(24)**	**90**
Effective tax rate	**11.93 %**	**- 30.86 %**

(1) In 2015, the closing of Dexia Etablissement Stable Luxembourg led to the decrease of deferred tax assets related to recoverable tax losses to EUR 838 million. This element has no impact on the result as these deferred tax assets were unrecognised. 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 in issue during the year, less the average number of ordinary shares purchased by the company and held as treasury stock.

	2015	2016
Net income, Group share (EUR million)	163	353
Weighted average number of ordinary shares (thousand) (1)	1,949	1,949
Basic earnings per share (in EUR) (1)	83.85	181.23
- of which, related to continuing activities	*92.37*	*172.65*
- of which, related to discontinued activities	*(8.52)*	*8.58*

(1) Persuant to the decision of the extraordinary shareholders' meeting of 20 May 2015, the shares of Dexia SA were regrouped with a ratio of one new share for one thousand existing shares, decision effective from 4 March 2016. The figures 2015 have been restated in order to ensure comparability of information. 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 shares options.

The potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share.

They are antidilutive and not taken into account when their conversion to ordinary shares would decrease loss per share.

No adjustment is made to net income attributable to equity holders of the parent.

	2015	2016
Net income, Group share (EUR million)	163	353
Weighted-average number of ordinary shares (thousand) (1)	1,949	1,949
Adjustment for stock-options (thousand) (1)	28,947	28,947
Weighted average number of ordinary shares used for the calculation of diluted earnings per share (thousand) (1)	30,896	30,896
Diluted earnings per share (in EUR) (1)	5.29	11.43
- of which, related to continuing activities	*5.83*	*10.89*
- of which, related to discontinued activities	*(0.54)*	*0.54*

(1) Persuant to the decision of the extraordinary shareholders' meeting of 20 May 2015, the shares of Dexia SA were regrouped with a ratio of one new share for one thousand existing shares, decision effective from 4 March 2016. The figures 2015 have been restated in order to ensure comparability of information. See also note 4.7 Capital stock.

6. Notes on off-balance sheet items

6.1. Regular way trade

(in EUR million)	31/12/2015	31/12/2016
Assets to be delivered	68	13
Liabilities to be received	3,405	106

6.2. Guarantees

(in EUR million)	31/12/2015	31/12/2016
Guarantees given to credit institutions	455	462
Guarantees given to customers	1,746	1,638
Guarantees received from credit institutions	132	752
Guarantees received from customers	6,899	6,076
Guarantees received from the States	61,669	71,780

6.3. Loan commitments

(in EUR million)	31/12/2015	31/12/2016
Unused lines granted to credit institutions	11	10
Unused lines granted to customers	2,575	1,777
Unused lines granted from credit institutions (1)	660	5,718
Unused lines granted from customers	834	817

(1) Increase from 2016 mainly due to the lower utilisation of financing commitments received from the Banque De France.

6.4. Other commitments

(in EUR million)	31/12/2015	31/12/2016
Financial instruments given as collateral and other commitments given	78,594	79,392
Financial instruments received as collateral and other commitments received	14,003	13,197

7. Notes on risk exposure

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

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.

	31/12/2015		
(in EUR million)	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	4,835	4,835	0
Interbank loans and advances	7,815	7,834	19
Customer loans and advances	127,876	119,102	(8,774)
Financial assets held to maturity	200	191	(9)
Central banks	15,932	15,932	0
Interbank borrowings and deposits	48,780	48,801	22
Customer borrowings and deposits	9,399	9,458	59
Debt securities	91,532	92,001	469
Subordinated debt	492	484	(8)

	31/12/2016		
(in EUR million)	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)

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

	31/12/2015				31/12/2016			
(in EUR million)	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Cash and central banks	0	4,835	0	4,835	0	4,223	0	4,223
Financial assets at fair value through profit and loss	1	15,102	5,073	20,176	1	12,253	5,527	17,781
** Loans and securities held for trading*	*0*	*0*	*1,375*	*1,375*	*0*	*0*	*1,365*	*1,365*
** Financial assets designated at fair value - equities*	*1*	*0*	*0*	*1*	*1*	*0*	*0*	*1*
** Derivatives held for trading*	*0*	*15,102*	*3,698*	*18,800*	*0*	*12,253*	*4,162*	*16,415*
Hedging derivatives	0	5,472	1,200	6,672	0	5,477	1,354	6,830
Financial assets available for sale	19,124	621	2,513	22,257	13,234	741	2,593	16,568
** Financial assets available for sale - bonds*	*19,019*	*614*	*2,375*	*22,007*	*13,153*	*727*	*2,479*	*16,358*
** Financial assets available for sale - equities*	*105*	*7*	*138*	*249*	*82*	*14*	*115*	*210*
Interbank loans and advances	5	3,327	4,502	7,834		2,441	4,951	7,392
Customer loans and advances	626	0	118,476	119,102	50	620	111,226	111,896
Financial assets held to maturity	21	0	171	191	1,657	99	129	1,885
TOTAL	**19,776**	**29,357**	**131,934**	**181,067**	**14,942**	**25,853**	**125,780**	**166,575**

Fair value of financial liabilities

	31/12/2015				31/12/2016			
(in EUR million)	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Central banks	0	15,932	0	15,932	0	690	0	690
Financial liabilities at fair value through profit and loss	1	17,814	4,964	22,779	1	13,827	4,848	18,676
** Financial liabilities designated at fair value*	*1*	*1,491*	*495*	*1,987*	*1*	*1,278*	*520*	*1,798*
** Derivatives held for trading*	*0*	*16,323*	*4,470*	*20,792*	*0*	*12,549*	*4,329*	*16,878*
Hedging derivatives	0	15,602	14,376	29,978	0	18,479	15,318	33,796
Interbank borrowings and deposits	0	21,996	26,806	48,801	0	21,614	18,623	40,237
Customer borrowings and deposits	0	3,324	6,134	9,458	0	8,074	2,742	10,816
Debt securities	0	55,281	36,720	92,001	0	69,453	29,454	98,907
Subordinated debt	0	23	461	484	0	0	479	479
TOTAL	**1**	**129,972**	**89,461**	**219,433**	**1**	**132,137**	**71,464**	**203,601**

d. Transfer between level 1 and level 2

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

	31/12/2015		31/12/2016	
(in EUR million)	From 1 to 2	From 2 to 1	From 1 to 2	From 2 to 1
Financial assets available for sale - bonds	0	5,733	550	62
TOTAL FINANCIAL ASSETS	**0**	**5,733**	**550**	**62**
TOTAL FINANCIAL LIABILITIES	**0**	**0**	**0**	**0**

In 2015, the transfers from level 2 to level 1 are mainly explained by the increasing liquidity in the market for Spanish covered bonds. The amounts of transfers between levels are the amounts of fair value of financial instruments at the closing date.

e. Level 3 reconciliation

	2015									
(in EUR million)	Opening balance	Total gains/ losses in P&L	Unrealised or deferred gains/ losses	Purchase	Sale	Settlement	Transfer into level 3 [1]	Transfer out of level 3	Other move-ments [2]	Closing
Loans and securities held for trading	1,787	(151)			(220)	(148)			107	1,375
Financial assets designated at fair value - bonds and other fixed-income instruments	27					(26)				
Derivatives held for trading	2,442	(75)					1,348	(93)	75	3,698
Hedging derivatives	1,236	(162)	28				192	(100)	5	1,200
Financial assets available for sale - bonds	2,604	(168)	3	38	(175)	(325)	245	(22)	175	2,375
Financial assets available for sale - equities	143	(5)		4	(14)	(1)			12	138
TOTAL FINANCIAL ASSETS	**8,239**	**(562)**	**31**	**42**	**(409)**	**(500)**	**1,786**	**(216)**	**374**	**8,786**
Financial liabilities designated at fair value	805	(63)				(330)			83	495
Derivatives held for trading	1,857	(75)					2,756	(122)	53	4,469
Hedging derivatives	9,666	(708)	(196)				5,447	(206)	374	14,376
TOTAL FINANCIAL LIABILITIES	**12,328**	**(845)**	**(196)**			**(330)**	**8,203**	**(329)**	**510**	**19,340**

(1) Long term interest rate derivatives, denominated in foreign currencies and collateralised in euros, have been valuated based on market values considered as unobservable in 2015 because they were implied from observable or extrapolated parameters.

(2) 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 186 million in result and to EUR 188 million recognised in Unrealised or deferred gains and losses through equity. On the liabilities side, they amount to EUR 427 million recognised in result and to EUR 83 million recognised in Unrealised or deferred gains or losses through equity.

(in EUR million)	2016									
	Opening balance	Total gains/ losses in P&L	Unrealised or deferred gains/ losses	Purchase	Sale	Settlement	Transfer into level 3[1]	Transfer out of level 3	Other move-ments[2]	Closing
Loans and securities held for trading	1,375	144				(56)			(98)	1,365
Derivatives held for trading	3,698	590		64			2	(22)	(170)	4,162
Hedging derivatives	1,200	86	40			(4)	42	(7)	(3)	1,354
Financial assets available for sale - bonds	2,375	65	(16)	29	(1)	(424)	560	(155)	47	2,479
Financial assets available for sale - equities	138	(2)	1		(22)	(0)				115
TOTAL FINANCIAL ASSETS	**8,786**	**884**	**26**	**93**	**(24)**	**(484)**	**604**	**(184)**	**(225)**	**9,475**
Financial liabilities designated at fair value	495	24				(15)			16	520
Derivatives held for trading	4,469	57		100		(2)	14	(14)	(297)	4,329
Hedging derivatives	14,376	1,128	79	935		0	6	(398)	(809)	15,318
TOTAL FINANCIAL LIABILITIES	**19,340**	**1,210**	**79**	**1,035**		**(17)**	**21**	**(412)**	**(1,090)**	**20,166**

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

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

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

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

- For level 3 bonds in AFS, the sensitivity of the AFS reserve to alternative assumptions is estimated between a positive impact of EUR 21.5 million and a negative impact of EUR -21.5 million for 2016, while in 2015, it was estimated between a positive impact of EUR 18 million and a negative impact of EUR -18 million.
- Negative Basis Trades are considered as one single product, and are therefore tested for the bond and its related CDS together. The main assumption having an impact on their fair value is the unwinding impact. Based on the important number of unwinds performed by Dexia since 2009, and taking into account the stock of remaining NBT transactions in 2016, the positive impact (unwinds cost of 2014) is EUR 5.2 million whereas the negative impact (unwinds cost of 2011) gives an impact of EUR -19.8 million. For 2015, the positive impact (unwinds cost of 2009) was EUR +5.5 million whereas the negative impact (unwinds cost of 2011) gave an impact of EUR -21.8 million.

The impact of the credit spreads alternative assumptions on Dexia's credit derivatives is estimated at EUR -14.1 million (positive scenario) versus EUR -14.7 million (negative scenario) before tax, while in 2015, it was estimated at EUR 15.7 million (positive scenario) versus EUR -16.4 million (negative scenario).

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 calculating its risk-weighted assets.

- For financial assets measured at amortised cost, the EAD of a credit exposure on the balance sheet corresponds to the book value, gross of impairments, taking account of accrued interest and the impact of hedge accounting;
- For financial assets measured at fair value, the EAD of a credit exposure on the balance sheet corresponds to the carrying amount before impairments;
- For derivatives, the EAD is calculated using the mark-to-market valuation method under Article 274 of the Regulation (EU) No 575/2013 and includes the replacement cost as well as the amount representing future potential exposure, obtained by the product of the notional amount and a coefficient depending on the type of derivative and its residual term;
- For off-balance-sheet commitments, the EAD represents the product of the (nominal) amounts of commitments and a Credit Conversion Factor (CCF). The Dexia 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 2016, the credit risk exposure amounts to EUR 165 billion.

a. Exposure by geographical region and by counterparty category

Exposure by geographic region

(in EUR million)	31/12/2015	31/12/2016
France	26,617	25,484
Belgium	2,204	2,035
Germany	22,308	20,689
Greece	153	128
Ireland	160	103
Italy	27,244	25,512
Luxembourg	125	85
Spain	16,933	14,154
Portugal	4,193	3,905
Hungary	946	275
Austria	1,575	1,118
Central and Eastern Europe	2,895	1,843
Netherlands	499	390
Scandinavian countries	1,471	1,229
Great Britain	25,821	25,461
Switzerland	520	399
Turkey	496	367
United States and Canada	31,470	26,552
South and Central America	552	490
Southeast Asia	845	620
Japan	7,560	7,479
Other (1)	7,203	6,347
TOTAL	**181,792**	**164,665**

(1) Includes supranational entities.

Exposure by category of counterpart

(in EUR million)	31/12/2015	31/12/2016
Central governments	29,511	25,458
Local public sector (1)(2)	94,520	89,298
Financial institutions (2)	24,687	20,123
Corporates	8,463	7,607
Monoline	1,837	2,062
ABS/MBS	8,039	6,600
Project finance	14,734	13,515
Individuals, SME, self-employed	2	2
TOTAL	**181,792**	**164,665**

(1) 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 and as at 31/12/2015, this category includes : EUR 63 million on Greece, EUR 26 million on Hungary, EUR 11,206 million on Italy, EUR 1,825 million on Portugal and EUR 7,796 million on Spain.
(2) To ensure internal reporting consistency, some classifications of exposition have been reviewed. Two Italian funds previoulsy classified as 'Financial Institution' were reclassified as 'Local Public sector' due to their specific activity, for an amount of EUR 94 million, amounts as at 31/12/2015 were reviewed.

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

(in EUR million)	31/12/2015 Credit risk exposure before financial effect of the collateral	31/12/2015 Financial effect of the collateral	31/12/2015 Credit risk exposure	31/12/2016 Credit risk exposure before financial effect of the collateral	31/12/2016 Financial effect of the collateral	31/12/2016 Credit risk exposure
Financial assets available for sale (excluding variable income securities)	22,105	0	22,105	16,362	0	16,362
Financial assets held for trading (excluding variable income securities)	1,375	0	1,375	1,365	0	1,365
Derivatives held for trading	8,815	2,901	5,913	7,856	1,939	5,917
Hedging derivatives	2,250	1,405	845	2,072	1,382	690
Financial assets held to maturity	200	0	200	1,917	0	1,917
Loans and advances (at amortised cost)	144,014	2,264	141,750	133,695	2,920	130,775
Loans commitments granted	1,715	0	1,715	1,249	0	1,249
Guarantee commitments granted	44,040	36,152	7,888	40,648	34,258	6,390
TOTAL	**224,514**	**42,722**	**181,792**	**205,164**	**40,499**	**164,665**

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.

	31/12/2015				
(in EUR million)	AAA to AA- [1]	A+ to BBB- [1]	Non investment grade [1]	Unrated	Total
Financial assets available for sale (excluding variable income securities)	3,805	15,123	2,965	0	21,893
Financial assets held for trading (excluding variable income securities)	46	1,292	38	0	1,375
Derivatives held for trading [1]	953	3,828	971	28	5,780
Hedging derivatives	138	605	102	0	845
Financial assets held to maturity	26	174	0	0	200
Loans and advances (at amortised cost)	62,146	62,114	15,046	300	139,606
Loans commitments granted [1]	939	614	114	5	1,671
Guarantee commitments granted	1,582	6,096	192	9	7,879
TOTAL	**69,636**	**89,846**	**19,427**	**341**	**179,250**

	31/12/2016				
(in EUR million)	AAA to AA-	A+ to BBB-	Non investment grade	Unrated	Total
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
TOTAL	**59,086**	**88,226**	**15,171**	**437**	**162,920**

(1) Distribution by rating now takes into account of the seniority of ratings but this adjustment has a very minor impact on distribution by class. 2015 figures have been reviewed.

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 exemple, 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".

	31/12/2015			
	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets, before deducting any impairment loss
(in EUR million)	Less than 90 days	90 days to 180 days	Over 180 days	
Financial assets available for sale (excluding variable income securities)	0	0	0	212
Loans and advances (at amortised cost)	57	4	436	1,320
Other financial instruments	0	0	13	2
TOTAL	**57**	**4**	**449**	**1,534**

Past due outstandings are mainly related to local public sector.

	31/12/2016			
	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets, before deducting any impairment loss
(in EUR million)	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
TOTAL	**33**	**10**	**258**	**1,065**

Forbearance

Regarding Dexia activities, restructured loans include 3 different types of restructuring:

1. Restructuring related to commercial relationships with customers, which represented almost all restructuring until 2011 except litigations in The Netherlands;
2. Restructuring related to litigations, mainly on structured loans, with customers without any financial difficulties;
3. Restructuring related to financial difficulties of the counterparty both under normal relationship or under litigations.

In accordance wih the EBA's definition of Forbearance, only the 3rd case is considered as forborne loan in the context of this analysis. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments.

As at 31/12/2016, total restructured loans related to financial difficulties of debitors was 956 million against 1,092 million as at 31/12/2015.

e. Collateral and other credit enhancements obtained by taking possession of collateral during the period

There are no assets of this type in 2016 nor in 2015.

f. Movements on impairment on financial assets

(in EUR million)	2015							
	As at 1 Jan.	Additions [1]	Reversals	Utilisation	Other adjustments[2]	As at 31 Dec.	Recoveries directly recognized in profit or loss	Charge-offs directly recognized in profit or loss
Specific impairment	**(391)**	**(311)**	**61**	**55**	**(18)**	**(604)**		**(70)**
Customer loans and advances	(309)	(198)	61		(12)	(458)		(11)
Available for sale securities	(80)	(113)		55	(6)	(144)		(54)
Fixed revenue instruments	*(43)*	*(107)*		*54*	*(1)*	*(98)*		*(54)*
Variable revenue instruments	*(38)*	*(6)*		*0*	*(4)*	*(48)*		
Accruals and other assets	(2)					(2)		(5)
Collective impairment	**(503)**	**(82)**	**173**	**0**	**(10)**	**(422)**		
Interbank loans and advances	(14)	(17)	10		(3)	(24)		
Customer loans and advances	(490)	(65)	163		(6)	(398)		
TOTAL	**(894)**	**(393)**	**234**	**55**	**(28)**	**(1,026)**		**(70)**

(1) The impairment on Hypo Alpe Adria Bank (HETA) is accounted for in Customers loans and advances for an amout of EUR -99 million and in Available for sale securities for an amount of EUR -98 million.
(2) Other adjustments include notably the impact of changes in exchange rates during the year.

(in EUR million)	2016							
	As at 1 Jan.	Additions	Reversals [1]	Utilisation	Other adjustments [2]	As at 31 Dec.	Recoveries directly recognized in profit or loss	Charge-offs directly recognized in profit or loss
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**	**0**	**(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 for in Customers loans and advances for an amout 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.

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

(in EUR million)	Carrying amount	Amount of change in the fair value attributable to changes in the credit risk		Difference between carrying amount and amount contractually required to be paid at maturity [1]
		For the period	Cumulative	
As at 31 December 2015	1,987	(79)	(204)	420
As at 31 December 2016	1,798	31	(173)	385

(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

(in EUR million)	31/12/2015		31/12/2016	
	Fair value of collateral held	Fair value of collateral sold or repledged	Fair value of collateral held	Fair value of collateral sold or repledged
Debt securities	2,591	1,606	2,913	1,583
TOTAL	**2,591**	**1,606**	**2,913**	**1,583**

Collateral is obtained in connection with the repurchase agreement activities.

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

(in EUR million)	31/12/2015	31/12/2016
Carrying amount of financial assets pledged as collateral for liabilities	111,383	97,436

The amount of EUR 111 billion in 2015 and of EUR 97 billion in 2016 represent 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 and Dexia Luxembourg SA, nor Dexia FP Holdings Inc.'s Guaranteed Investment Contracts (GICs). These assets are close to EUR 28 billion in 2016 (EUR 30 billion in 2015).

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

	31/12/2015									
(in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and central banks	2,855	1,980	0	0	0	0	0			4,835
Financial assets at fair value through profit or loss	0	1,020	49	26	13	0	1,062	18,007		20,176
of which Trading derivatives							*1,056*	*17,744*		*18,800*
Hedging derivatives							671	6,001		6,672
Financial assets available for sale	1	2,025	1,013	3,542	11,538	262	356	3,663	(144)	22,257
Interbank loans and advances	706	1,675	1,004	2,897	857	0	26	673	(24)	7,815
Customer loans and advances	93	27,237	28,790	10,442	41,573	22	784	19,790	(856)	127,876
Fair value revaluation of portfolio hedge								1,696		1,696
Financial assets held to maturity	0	20	42	136	0	0	2		0	200
Accruals and other assets	17	1,340	81	0	0	36,909	0	0	(2)	38,346
of which paid cash collateral						*36,890*	*0*			*36,891*
Subtotal financial assets used to calculate the gap	*3,672*	*35,297*	*30,980*	*17,043*	*53,982*	*37,193*				
Non-financial assets						408		0	0	408
TOTAL	**3,672**	**35,297**	**30,980**	**17,043**	**53,982**	**37,601**	**2,901**	**49,831**	**(1,026)**	**230,281**

b. Analysis of liabilities excluding shareholders' equity

(in EUR million)	31/12/2015								
	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
Central banks	0	15,031	900	0	0	0	1		15,932
Financial liabilities at fair value through profit and loss	0	65	0	180	1,307	0	993	20,235	22,779
of which Trading derivatives							*979*	*19,813*	*20,792*
Hedging derivatives							1,270	28,708	29,978
Interbank borrowings and deposits	109	21,894	21,950	3,092	1,655	0	62	17	48,780
Customer borrwings and deposits	2,121	2,404	3,507	848	446	0	28	45	9,399
Debt securities	0	22,375	20,082	25,572	18,189	0	697	4,617	91,532
Fair value revaluation of portfolio hedge								170	170
Subordinated debts	0	401	0	85	0	0	3	3	492
Accruals and other liabilities	11	1,155	38	36	45	4,850	0		6,135
of which received cash collateral						*4,811*	*0*		*4,812*
Subtotal financial liabilities used to calculate the gap	*2,241*	*63,324*	*46,478*	*29,812*	*21,642*	*4,850*			
Non-financial liabilities						537			537
TOTAL	**2,241**	**63,324**	**46,478**	**29,812**	**21,642**	**5,387**	**3,054**	**53,795**	**225,734**

c. Balance-sheet sensitivity gap as at 31/12/2015

(in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity
	1,431	(28,027)	(15,498)	(12,768)	32,340	32,344

Balance-sheet sensitivity gap is hedged through derivatives.

a. Analysis of assets

(in EUR million)	31/12/2016									
	Demand	Less than 3 months	3 months to 1 year	3 months to 1 year	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
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
of which Trading derivatives							*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
of which paid cash collateral						*36,632*	*(0)*			*36,632*
Subtotal financial assets used to calculate the gap	*2,528*	*30,705*	*24,544*	*13,597*	*53,148*	*36,836*				
Non-financial assets						108				108
TOTAL	**2,528**	**30,705**	**24,544**	**13,597**	**53,148**	**36,945**	**2,826**	**49,260**	**(781)**	**212,771**

b. Analysis of liabilities excluding shareholders' equity

(in EUR million)	31/12/2016								
	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
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
of which Trading derivatives							*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 borrwings 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
of which received cash collateral						*3,966*	0		*3,966*
Subtotal financial liabilities used to calculate the gap	*729*	*67,112*	*27,778*	*31,624*	*19,935*	*3,981*			
Non-financial liabilities						467			467
TOTAL	**729**	**67,112**	**27,778**	**31,624**	**19,935**	**4,448**	**2,869**	**53,703**	**208,197**

c. Balance-sheet sensitivity 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
	1,799	(36,406)	(3,234)	(18,027)	33,213	32,855

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:

– 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 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 Market 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 2016, total VaR consumption stood at EUR 8.2 million, compared with EUR 13.7 million at the end of 2015.

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)	2015			
VaR (10 days, 99%)	**By risk factor**			**Overall**
	Interest rate and currency *(Banking et Trading)*	**Spread *(Trading)***	**Other risks**	
Average	9.6	4.6	0.2	14.4
Period end	10.3	3.1	0.2	13.7
Maximum	11.6	5.5	0.3	17.0
Minimum	6.9	3.0	0.2	12.4

VALUE AT RISK DES ACTIVITÉS DE MARCHÉ

(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

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)	2015	2016
Sensitivity	+ 2.2	+ 8.8
Limit	+/- 80	+/- 80

The sensitivity of long term ALM amounted to EUR + 8.8 million as at 31 December 2016 compared with EUR + 2.2 million as at 31 December 2015. It complies with the ALM strategy, which seeks to minimise the volatility of the income statement.

c. Dexia bond portfolio exposure

(in EUR billion)	2015	2016
Notional exposure	66	58

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)	2015	2016
Sensitvity	(18)	(13)

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

	31/12/2015									
(in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash and central banks	2,855	1,980	0	0	0	0	0			4,835
Financial assets at fair value through profit or loss	0	6	6	117	979	0	1,062	18,007		20,176
of which Trading derivatives							*1,056*	*17,744*		*18,800*
Hedging derivatives							671	6,001		6,672
Financial assets available for sale	1	918	1,215	3,586	12,399	262	356	3,663	(144)	22,257
Interbank loans and advances	706	47	813	3,880	1,693	0	26	673	(24)	7,815
Customer loans and advances	93	2,711	4,706	20,362	80,264	22	784	19,790	(856)	127,876
Fair value revaluation of portfolio hedge								1,696		1,696
Financial assets held to maturity	0	20	60	118	0	0	2		0	200
Accruals and other assets	17	302	81	0	1,038	36,909	0		(2)	38,346
of which paid cash collateral						*36,890*	*0*			*36,891*
Subtotal financial assets used to calculate the gap	*3,672*	*5,984*	*6,881*	*28,063*	*96,373*	*37,193*				
Non-financial assets						408		0	0	408
TOTAL	**3,672**	**5,984**	**6,881**	**28,063**	**96,373**	**37,601**	**2,901**	**49,831**	**(1,026)**	**230,281**

b. Analysis of liabilities excluding shareholders' equity

(in EUR million)	31/12/2015								
	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
Central banks	0	15,031	900	0	0	0	1		15,932
Financial liabilities at fair value through profit and loss	0	0	70	118	1,364	0	993	20,235	22,779
of which Trading derivatives							*979*	*19,813*	*20,792*
Hedging derivatives							1,270	28,708	29,978
Interbank borrowings and deposits	49	4,943	34,096	7,782	1,771	59	62	17	48,780
Customer borrwings and deposits	2,020	2,286	3,567	851	602	0	28	45	9,399
Debt securities	0	13,143	21,437	31,902	19,736	0	697	4,617	91,532
Fair value revaluation of portfolio hedge								170	170
Subordinated debts	0	0	0	462	23	0	3	3	492
Accruals and other liabilities	11	917	37	36	284	4,850	0		6,135
of which received cash collateral						*4,811*	*0*		*4,812*
Subtotal financial liabilities used to calculate the gap	*2,080*	*36,321*	*60,106*	*41,151*	*23,780*	*4,909*			
Non-financial liabilities						537			537
TOTAL	**2,080**	**36,321**	**60,106**	**41,151**	**23,780**	**5,446**	**3,054**	**53,795**	**225,734**

Net liquidity gap as at 31/12/2015 (in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity
	1,592	(30,337)	(53,224)	(13,088)	72,593	32,285

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)	31/12/2016									
	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	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
of which Trading derivatives							*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
of which paid cash collateral						*36,632*	*(0)*			*36,632*
Subtotal financial assets used to calculate the gap	*2,528*	*5,637*	*5,861*	*22,943*	*87,553*	*36,836*				
Non-financial assets						108		0	0	108
TOTAL	**2,528**	**5,637**	**5,861**	**22,943**	**87,553**	**36,945**	**2,826**	**49,260**	**(781)**	**212,771**

b. Analysis of liabilities excluding shareholders' equity

(in EUR million)	31/12/2016								
	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
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
of which Trading derivatives							*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 borrwings and deposits	549	3,935	4,426	1,273	531	0	24	41	10,778
Debt securities		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
of which received cash collateral						*3,966*	*0*		*3,966*
Subtotal financial liabilities used to calculate the gap	*712*	*38,579*	*33,805*	*49,735*	*24,346*	*3,981*			
Non-financial liabilities						467			467
TOTAL	**712**	**38,579**	**33,805**	**49,735**	**24,346**	**4,448**	**2,869**	**53,703**	**208,197**

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.

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 (in EUR million)	31/12/2015						
	EUR	GBP	Other EU currencies	U.S. dollars	JPY	Other currencies	Total
Total assets	153,694	26,023	132	37,053	7,773	5,606	230,281
Total liabilities and shareholders' equity	155,482	24,514	51	40,605	5,315	4,314	230,281
NET BALANCE SHEET POSITION	**(1,788)**	**1,509**	**80**	**(3,552)**	**2,458**	**1,292**	**0**

Classification by original currency (in EUR million)	31/12/2016						
	EUR	GBP	Other EU currencies	U.S. dollars	JPY	Other currencies	Total
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
NET BALANCE SHEET POSITION	**(1,901)**	**1,279**	**78**	**(2,853)**	**2,249**	**1,147**	**0**

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.

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

b. Geographic reporting

(in EUR million)	Belgium	France	Germany	Spain [1]	Ireland	Italy	United States	Israel	Other [1]	Total
As at 31 December 2015										
NET BANKING INCOME	**90**	**267**	**14**	**55**	**193**	**70**	**120**	**33**	**(8)**	**834**
As at 31 December 2016										
NET BANKING INCOME	**(7)**	**271**	**54**	**37**	**76**	**68**	**16**	**31**	**(40)**	**506**

(1) The figures as at 31 December 2015 have been restated in order to present Spain distinctly from Portugal, while they were previously globalised.

Dexia SA
Statutory auditor's report to the shareholders' meeting of Dexia SA on the consolidated financial statements for the year ended 31 December 2016

As required by law, we report to you in the context of our appointment as the company's statutory auditor. This report includes our report on the consolidated financial statements together with our report on other legal and regulatory requirements. These consolidated financial statements comprise the consolidated balance sheet as of 31 December 2016, 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 for the year then ended, as well as the summary of significant accounting policies and other explanatory notes.

Report on the consolidated financial statements – Unqualified opinion with emphasis of matter paragraph on the application of the valuation rules in going concern

We have audited the consolidated financial statements of Dexia SA ("the company") and its subsidiaries (jointly "the group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium. The consolidated balance sheet shows total assets of 212 771 million EUR and the consolidated statement of income shows a consolidated profit (group share) for the year then ended of 353 million EUR.

Board of directors' responsibility for the preparation of the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of 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.

Statutory auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA) as adopted in Belgium. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the group's preparation and fair presentation of consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated financial statements. We have obtained from the group's officials and the board of directors the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unqualified opinion

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 2016, and of its results and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

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

Without modifying the above unqualified opinion, we draw your attention to note 1 of the notes to the consolidated financial statements which states that the consolidated financial statements of Dexia SA as of 31 December 2016 have been prepared using the going concern principle in accordance with the criteria of IAS 1.

The justification of the going concern assumption is supported by a revised business plan, underlying the the orderly resolution of Dexia group, approved by the group's board of directors on 16 November 2016 and which is taking into account a.o. the following assumptions:

- The business plan was constructed from market data observable at the end of September 2012; the underlying macroeconomic assumptions are reviewed as part of the semi-annual reviews of the overall plan. In particular, the updates made on the basis of market data as at 30 June 2016 and validated by the board of directors of Dexia on 16 November 2016 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments known to date.
- The business plan assumes the maintenance of the banking licences of the various entities and the rating of Dexia Crédit Local SA.
- The business plan 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 secure funding. 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 business plan.
- The realization of the business plan 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 compliance with certain regulatory ratios over time.
- The 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 weight on the group's liquidity and its solvency position, by increasing the amount of cash collateral paid by Dexia to its derivative counterparties. The evolution on these parameters might impact the valuations of the financial assets and liabilities and 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.

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

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

Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements.

As part of our mandate and in accordance with the Belgian standard complementary to the International Standards on Auditing applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we make the following additional statement, which does not modify the scope of our opinion on the consolidated financial statements:

- The directors' report on the consolidated financial statements includes the information required by law, is consistent with the consolidated financial statements and is free from material inconsistencies with the information that we became aware of during the performance of our mandate.

Zaventem, 3 April 2017

The statutory auditor

DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises
BV o.v.v.e. CVBA / SC s.f.d. SCRL
Represented by Yves Dehogne

Annual financial statements as at 31 December 2016

Balance Sheet
(before income appropriation)

ASSETS (in EUR)		31/12/2015	31/12/2016
FIXED ASSETS		**2,096,345,399**	**2,345,700,167**
II.	Intangible fixed assets	591,329	308,685
III.	Tangible fixed assets	513,604	235,858
	B. Plant, machinery and equipment	18,942	13,206
	C. Furniture and vehicles	316,541	221,175
	E. Other tangible fixed assets	178,121	1,477
IV.	Financial fixed assets	2,095,240,466	2,345,155,624
	A. Affiliated enterprises	2,093,141,349	2,343,141,349
	1. Participating interests	2,093,141,349	2,343,141,349
	C. Other financial assets	2,099,117	2,014,275
	1. Shares	2,001,000	2,001,000
	2. Amounts receivable and cash guarantees	98,117	13,275
CURRENT ASSETS		**1,030,106,352**	**777,729,054**
V.	Amounts receivable after more than one year	105,359,861	108,307,510
	B. Other amounts receivable	105,359,861	108,307,510
VII.	Amounts receivable within one year	48,564,048	7,531,179
	A. Trade debtors	412,088	2,747,379
	B. Other amounts receivable	48,151,960	4,783,800
VIII.	Current investments	849,011,263	642,973,044
	B. Other investments and deposits	849,011,263	642,973,044
IX.	Cash at bank and in hand	25,715,180	17,513,002
X.	Deferred charges and accrued income	1,456,000	1,404,319
TOTAL ASSETS		**3,126,451,751**	**3,123,429,221**

SHAREHOLDERS' EQUITY AND LIABILITIES (in EUR)		31/12/2015	31/12/2016
EQUITY		**2,969,781,966**	**2,984,331,902**
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	189,789,660	246,901,794
V. bis.	Profit (+) for the year [1]	57,112,134	14,549,936
PROVISIONS AND DEFERRED TAXES		**101,567,364**	**87,308,874**
VII.	A. Provisions for liabilities and charges	101,567,364	87,308,874
	2. Fiscal charges	-	4,000,000
	4. Other liabilities and charges	101,567,364	83,308,874
AMOUNTS PAYABLE		**55,102,421**	**51,788,445**
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	14,681,160	11,547,678
	C. Trade debts	1,420,089	3,583,475
	1. Suppliers	1,420,089	3,583,475
	E. Taxes, remuneration and social security	6,438,237	2,650,520
	1. Taxes	3,293,770	131,379
	2. Remuneration and social security	3,144,467	2,519,141
	F. Other amounts payable	6,822,834	5,313,683
X.	Accrued charges and deferred income	633,261	452,767
TOTAL LIABILITIES		**3,126,451,751**	**3,123,429,221**

(1) See note 1 to the annual financial statements

Off-balance-sheet items

(in EUR)	31/12/2015	31/12/2016
Miscellaneous rights and commitments		
Guarantee given by the French and Belgian States for the Finanial Products portfolio [1]	PM	PM
Guarantees given by third parties on behalf of the company	302,973	302,973
Personal guarantees given on behalf of third parties	7,500	-
Real guarantees given on own assets	150,324,529	150,324,996
Commitment to issue shares linked to stock options (exercise price)	508,950,066	338,055,080
Commitment to issue shares to the Belgian and French States	PM	-
Commitment towards Dexia Nederland NV	PM	PM
Commitments others [2]	PM	PM

(1) See note 4.4.c of the consolidated financial statement
(2) See note 4.4. Off-balance-sheet items - Commitments

Income Statement

(in EUR)		31/12/2015	31/12/2016
I.	Operating income	14,240,812	65,221,741
	D. Other operating income	14,118,122	13,267,029
	E. Non-recurring operating income	122,690	51,954,712
II.	Operating charges	(64,686,913)	(61,857,659)
	B. Services and other goods	(17,285,135)	(17,797,130)
	C. Remuneration, social security costs and pensions	(12,471,400)	(10,596,412)
	D. Depreciation of and amounts written off on formation expenses, intangible and tangible fixed assets	(749,107)	(629,105)
	F. Provisions for liabilities and charges : Increase (-)	(150,838)	(150,840)
	G. Other operating charges	(654,719)	(873,445)
	I. Non-recurring operating charges	(33,375,714)	(31,810,727)
III.	Operating loss (-) / Operating income (+)	(50,446,101)	3,364,082
IV.	Financial income	122,869,878	20,694,570
	A. Recurring financial income	20,766,663	8,050,438
	2. Income from current assets	4,651,107	2,203,871
	3. Other financial income	16,115,556	5,846,567
	B. Non-recurring financial income	102,103,215	12,644,132
V.	Financial charges	(16,853,565)	(5,425,350)
	A. Recurring financial charges	(226,442)	(504,674)
	1. Debt charges	(60,913)	(185,181)
	3. Other financial charges	(165,529)	(319,493)
	B. Non-recurring financial charges	(16,627,123)	(4,920,676)
VI.	Profit for the period before taxes	55,570,212	18,633,302
VIII.	Income taxes	1,541,922	(4,083,366)
	A. Income taxes	(92,110)	(5,709,552)
	B. Adjustment of income taxes and write-back of tax provisions	1,634,032	1,626,186
IX.	Profit for the period	57,112,134	14,549,936
XI.	Profit to be appropriated	57,112,134	14,549,936
	Profit brought forward of the previous period	189,789,660	246,901,794
	Profit for the period to be appropriated	57,112,134	14,549,936
	PROFIT TO BE APPROPRIATED	**246,901,794**	**261,451,730**

Notes to the annual financial statements

1. Presentation of the financial statements

Dexia presents its financial statements before appropriation. The 2016 financial year closed with a profit of EUR 14.5 million. The profit carried over from the previous period is EUR 246.9 million. As a result, the total profit to be appropriated is EUR 261.5 million.
The Directive 2013/34/EU of 26 June 2013 with regard to the annual financial statements, the annual consolidated financial statements and the related reports has been transposed into Belgian legislation though 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 accounted for 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 future financial statements.
The non-recurring operational and financial results have been presented in detail in the notes to the annual accounts for financial year 2015 and 2016. This means the figures presented in financial year 2016 are comparable to the figures presented in financial year 2015 since the changes have only materialised in a transfer from exceptional results to non-recurring operational or financial results and is therefore strictly structural.
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 shares (ISIN BE0974290224) are traded on Euronext Brussels.
In the context of the Group's resolution, Dexia decided to cancel the listing of its shares on the stock exchanges of Euronext Paris and the Luxembourg Stock Exchange on 12 December 2016
Dexia is therefore 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 provided for 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 495.79 per item or, when delivery is broken down into partial shipments representing less than EUR 495.79 each but the total delivery is at least EUR 495.79. 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 revaluated in the case of a certain, permanent increase in their fair value for the company compared with their book value.
Revaluation gains are maintained under this heading until the realization of the assets concerned or their inclusion in capital.

3.3.2.PROVISIONS FOR LIABILITIES AND CHARGES (ITEM VII.)

At balance-sheet date, the Board of Directors, acting with prudence, sincerity and good faith, examines the provisions to be built up in order to cover all possible risks or losses that might have occurred during the financial year or previous financial years, and, in case of an obligation, the expected amount necessary to honour 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 agreement 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 Dexia – La Défence 2, F-92919 Paris.. From an accounting point of view, the financial statements of Dexia include the accounts of Brussels, the Dexia head office, and those of the permanent establishment in Paris.

CONTINUITY OF OPERATIONS (GOING CONCERN)

The annual and consolidated financial statements of Dexia SA as at 31 December 2016 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 observable at the end of September 2012; the underlying macroe-

conomic assumptions are reviewed as part of the semi-annual reviews of the overall plan.
In particular, the updates made on the basis of market data observable at the end of September 2012 and validated by the Board of Directors of Dexia on 16 November 2016 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments to date, such as the final version of the CRD IV Directive and implementation of the IFRS 9 accounting standard from 2018, based on the assumptions known to date.
The business plan 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, but at this stage 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.
From this perspective, 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 to reduce its reliance on central bank funding and to exit the exceptional funding mechanisms put in place in 2012. With its prudent liquidity management, Dexia has also established liquidity reserves with the aim of protecting itself against the increase in the amount of cash collateral paid to its derivatives counterparties. These reserves amounted to EUR 18.2 billion as at 31 December 2016.

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 compliance with certain regulatory ratios over time.
The 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 (the sensitivity of the liquidity requirement to that parameter being in the order of EUR +1 billion for a decrease of 10 basis points in long-term rates) 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 3 123.4 million as at 31 December 2016 is stable when compared to EUR 3 126.5 million as at 31 December 2015.

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 intangible fixed assets are depreciated on a straight-line method over a period of three years.

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 3.7 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 that has been fully depreciated has been reversed representing an amount of EUR 4,2 million as a consequence of the migration to a new IT infrastructure in 2016. The current investment in computer and audio-visual hardware has since dropped to a gross amount 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 1.6 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" represents EUR 2 343.1 million as at 31 December 2016, an increase of EUR 250 million compared to 31 December 2015.
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 has increased from EUR 16 953,8 million to EUR 17 203,8 million as a result of a capital increase of EUR 250 million that took place on 28 June 2016. The banking, prudential and accounting regulations have had a progressively restricting effect on the basis of regulatory required capital of DCL. In order to cope with this situation and in the pursuit of a healty management of the company, it has been decided to increase the capital of DCL.
The total recognised impairment on DCL is maintained at EUR 14 953,8 million
• 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 2016, the group includes the following companies:

- CBXIA2
- DCL Evolution
- Dexia CLF Banque
- Dexia CLF Régions Bail
- Dexia Crédit Local
- Dexia Établissement Stable Paris
- Dexia Flobail
- Dexiarail
- Genebus Lease.

Given that the commitments made by Dexia Crédit Local and its subsidiaries allow Dexia, through its permanent establishment, to lock in temporary tax savings, it was agreed that the economies produced 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 2017 amounted to EUR 89,3 million on 31 December 2016.

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 19 million on 31 December 2016.

4.2.5. AMOUNTS RECEIVABLE WITHIN ONE YEAR

Trade debtors

The item "Trade debtors" covers commercial receivables to be charged essential to subsidiaries from the Group (EUR 2.7 million).

Other amounts receivable

Dexia Funding Luxemburg (DFL), a 100% subsidiary of Dexia, issued in 2006 non-cumulative fixed-rate/floating-rate perpetual securities for an amount of EUR 500 million guaranteed by Dexia (DFL securities). The profit from the issuance of the DFL instruments, was lent to Dexia Bank Belgium SA (today Belfius Bank) in the context of a subordinated loan. 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 and reimbursed the subordinated loan, for an amount equal to the nominal value of the DFL securities tendered and acquired by DBB. Dexia agreed to buy from DBB the DFL securities obtained under the offer. These repurchases have reduced the exposure of the Dexia Group on DBB. 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 2015 in the accounts of Dexia a senior debt to Belfius Bank of EUR 39.8 million representing the balance of the DFL securities which have not been repurchased. This debt came to maturity on 2 November 2016 and is refunded by Belfius Banque.

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 2016, the permanent establishment in Paris had a receivable of EUR 1.5 million to the French tax authorities as the lead company for French tax consolidation for the years 2011 to 2015.

On December 31 2016 Dexia still holds a claim on the companies that took over the tax consolidation at Luxembourg. This receivable corresponds to the tax payable by these companies on their share in the consolidated taxable income .

In addition, Dexia must receive 0,7 million EUR early redemption of fixed income securities held in the portfolio.

The balance consists of various claims of insignificant amounts (2.6 million EUR)

4.2.6. CURRENT INVESTMENTS

Other investments and deposits

Cash surpluses of Dexia were deposited at short term with DCL (EUR 523 million).

In addition, Dexia holds securities for which the acquisition price is EUR 120 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 17.5 million.

4.2.8. DEFERRED CHARGES AND ACCRUED INCOME

Deferred charges totalled EUR 1.3 million and includes insurance (EUR 0.4 million) and also other general expenses (EUR 0.9 million).
The accrued income totalled EUR 0.1 million consists of interests on current investments and tax deferred advances.

4.3. Shareholders' equity and liabilities

SHAREHOLDERS' EQUITY

As at 31 December 2016, the holding company's shareholders' equity including 2016 net result before profit appropri-

ation totalled EUR 2 984.3 million and is composed of the following items:

4.3.1. CAPITAL

The subscribed capital as at 31 December 2016 amounts to EUR 500 million.
The regrouping of shares of Dexia , announced in their press release on 28 January 2016, has been exercised using a ratio of one new share (ISIN BE0974290224) for every thousand existing shares (ISIN BE0003796134) and has been put into force since 4 March 2016. As at 31 December 2016, the subscribed capital is represented by 1 948 984 class A shares and 28 947 368 class B shares of which, 1 724 030 dematerialised shares and 29 172 322 registered shares. (cfr. Note 3.9. page 108 and Note 4.7. page 114 in the consolidated accounts)

4.3.2. SHARE PREMIUM ACCOUNT

The previous capital increases generally involved an issue premium so the total of these premiums amount to EUR 1 900 million as at 31 December 2016.

4.3.3. RESERVES AND RETAINED EARNINGS

The item "Reserves" includes the legal reserves (EUR 50 million) and an available reserve amounting to EUR 272.9 million.

At the General Shareholders' meeting of 18 May 2016, the profit of the year 2015 of EUR 57.1 million as well as the retained earnings of 189.8 million on 31 December 2014 contributed to the reported earnings, bringing the total retained earnings to 246.9 million on 31 December 2015.

4.3.4. NET RESULT FOR THE YEAR

The profit for 2016 is EUR 14.5 million. This profit arises from the recurrent financial results (EUR +7.5 million), non-recurring results (EUR + 23.8 million) from which are deducted the holding company's net operating expenses (EUR -16,8 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 48 million 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 0.1 million EUR in 2016. The total of those engagements amounts to 1.3 million EUR on 31 December 2016.

Concerning the exceptional provisions of the guarantees linked to the sale of subsidiaries that were part of the Group on 31 December 2015 (EUR 36.7 million), a reversal of EUR 35.2 million was made in the accounts of Dexia carrying the provision related to its former subsidiary Dexia Holdings Inc. which was sold to Dexia Credit Local at EUR 1.5 million (Please refer to: "Litigation" of the chapter "Risk Management" page 23). Furthermore, the provisions related to the sale of other subsidiaries which amounting to EUR 26.6 million at December 31 2015, were subject to an additional allocation in 2016 for an amount of 27.5 million EUR and has been reversed for an amount of 9.6 million giving rise to a total net provision of 44.5 million EUR at 31 December 2016.

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 20.1 million on 31 December 2015 was used for the amount of EUR 1.1 million, resulting in EUR 19 million at 31 December 2016.

The exceptional provision of EUR 17 million set up in 2015 in order to cover the other risks has been maintained in 2016 as long as the contractual maturity linked to the underlying risks is not reached.

Taking into account the above, the balance of provisions for other liabilities and charges at 31 December 2016 amounts to EUR 83.3 million compared to EUR 101.6 million at 31 December 2015.

LIABILITIES

4.3.6. AMOUNTS PAYABLE WITHIN MORE THAN ONE YEAR

Subordinated loans

As stated in item 4.2.5., Dexia Funding Luxemburg (DFL), a 100% subsidiary of Dexia, issued in 2006 non-cumulative fixed-rate/floating-rate perpetual securities for an amount of EUR 500 million guaranteed by Dexia (DFL securities. Following the sale of Dexia Bank Belgium (DBB) on 20 October 2011 to the Federal Holding and Investment Company, DBB launched two public offers on the DFL securities. Dexia agreed to buy from DBB the DFL securities obtained under the offer. Following the merger by absorption of DFL by Dexia on 9 May 2012, the DFL securities acquired for the amount of EUR 460.2 million were cancelled by Dexia. There remains on 31 December 2016 in the accounts of Dexia a senior debt to Belfius Bank of 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 2.5 million, invoices to be received EUR 1.1 million, including 0.4 million due to related companies.

Taxes, remuneration and social security

This item includes:
- the professional withholding tax and other taxes (EUR 0.2 million);
- liabilities for remuneration and social contributions (EUR 2.5 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. The advances paid by subsidiaries in 2016 were above the estimated tax they owed the parent company (EUR 1.7 million).

The balance of the dividends remaining to be paid for the previous financial years amounts to EUR 3.6 million.

4.3.8. ACCRUED CHARGES AND DEFERRED INCOME

This item consists exclusively of expenses to be accrued as follows:
- Rent charges (EUR 0.4 million)
- Other general costs (EUR 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 2016, the number of options attributed to staff and management and not yet exercised stood at 21 968 453. Taking exercise prices into account, this operation generates an off-balance sheet of EUR 338 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 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 Luxemburg and Dexia Bank, also shareholders of Dexia Financière, for the case where the value of Dexia Nederland Holding, including the Dexia Bank Nederland (DBnl), should be revised upwards as a consequence in favour of DBnl.

4.4.4. On 5 December 2002, Dexia committed to its subsidiary Dexia Bank Nederland NV, and to each of the entities resulting from the split-up of Dexia Bank Nederland, excluding any other entity, to ensure that Dexia Bank Nederland or the entities are at any time, in a position to meet their commitments to third parties and to continue their activities, including maintenance of their relationships with account holders and other clients; in particular, the aim of this undertaking was to prevent third parties being prejudiced by the demerger of Dexia Bank Nederland. The amendment or withdrawal of this undertaking was subject to prior agreement of DNB (De Nederlandsche Bank). The sale of Kempen & Co NV to a group of financial investors and management was finalised on 15 November 2004. Within the context of this sale, Dexia reconfirmed by letter dated the same day its commitment towards Dexia Bank Nederland, which remains a 100% subsidiary of Dexia to the exclusion of any other entity.
In addition to the usual guarantees given to purchasers to which Dexia is also bound, Dexia will indemnify Kempen & Co against the risks relating to share leasing contracts sold by Dexia Bank Nederland NV, formerly Labouchere, and committed to compensate Kempen & Co for damage resulting from a limited and identified number of elements.

4.4.5. TRANSACTIONS WITH THE BELGIAN, FRENCH AND LUXEMBOURG STATES

See note 4.4.c. "Transactions with the Belgian, French and Luxembourg states" of the consolidated financial statements.

4.4.6. LEASE GUARANTEES

The transfer of the registered office of Dexia to the Bastion Tower, Place du Champ de Mars 5, B-1050 Brussels required the deposit of an unconditional guarantee payable on first demand of EUR 0.3 million in favour of the owner of the premises.

4.4.7. REAL GUARANTEES ON OWN FUNDS

In order to cover its commitments, Dexia has pledged bonds which it holds in its treasury portfolio (EUR 120 million) to White Rock Insurance Company PCC Ltd, as well as cash collateral placed on an account for an amount of EUR 150 million.

Otherwise cash frozen on ad hoc accounts is given as surety to Belfius Bank and third parties 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. PREFERENTIAL RIGHTS OF CLASS B SHARES

According to article 4ter2 of the by-laws, the holders of class B shares have preferential rights, specifically with regards to dividends, the distribution in case of liquidation and in case of a capital reduction by reimbursement to the shareholders. (See note 4.7. of the consolidated statements)

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 13.3 million) includes the services provided in 2016 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 10.3 million). Also included in this item are the recovery of costs from Group companies (0.6 million EUR), the recovery of the wealth taxes no longer due by the permanent establishment in Luxembourg which has been closed on 31 October 2015 (2.3 million EUR), as well as structural reductions regarding the professional withholding tax and other operating income (0.1 million EUR).

Non-recurring operating income (EUR 51.9 million) includes the reversal of the provision for guarantees related to the sale of Dexia Holdings Inc. following a revaluation of the risk (EUR 35.2 million), other non-recurring operational income (EUR 16.7 million), which include insurance indemnities obtained as compensation for collateral given by Dexia on the disposal of subsidiaries (EUR 16.5 million) and the repayment of advances for court costs (EUR 0.2 million).

Services and other goods amounting to EUR 17.3 million as at 31 December 2015 become EUR 17.8 million at 31 December 2016.
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 increased by EUR 4.9 million in 2015 against EUR 6.4 million in 2016 particularly in view of the enlargement of the Management Committee (+ EUR 1 million).
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 a reduced cost of EUR 1.2 million compared to EUR 1.4 million in 2015, after taking into account the disposal of subsidiaries and the risk review.

Other operating costs (rental of buildings, telecommunications, travel, trainings, etc.) were limited to EUR 9.8 million compared to EUR 10.2 million in 2015.
Costs associated with the Group transformation plan are no more than EUR 0.4 million in 2016, compared to EUR 0.8 million in 2015.

The **cost of remunerations and social charges** declines from EUR 12.5 million in 2015 to EUR 10.6 million in 2016 in connection with the decrease in the number of staff from 76 FTEs in 2015 to 68.6 FTEs in 2016.

Amortisation of intangible assets amounts to EUR 0.3 million and depreciation of tangible fixed assets EUR 0.3 million.

Provisions for risks and charges are commented in the first paragraphe of note "4.3.5. Provisions for other liabilities and charges".

Other operating expenses (EUR 0.9 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 0.6 million), the annual contribution paid to the Financial Services Marketing Authority (FSMA) (EUR 0.2 million) as well as the other various taxes (0.1 million).

The **non-recurring operational costs** (EUR 31,8 million) (see note 4.19.) include in the subsection "provisions for exceptional liabilities and charges" (EUR 26,4 million) an addition to the provision of EUR 27,5 million which is intended to cover commitments made to subsidiaries and the utilisation of the provision corresponding to the provisioned severance costs following the announcement of the resolution in October 2011 (EUR – 1,1 million).

The subsection "other non-recurring operational expenses" (EUR 5,4 million) includes termination benefits and similar expenses related to the resolution of the group (EUR 1,5 million), as well as the expense incurred following the sale of the participations held and in the framework of the strategic analysis on the evolution of the Group (EUR 3,9 million)

4.5.2. FINANCIAL RESULT

Income from current assets (EUR 2.2 million) include the interest generated by the long-term loan originally granted by DFL to Belfius Bank and recorded amongst the assets of Dexia following the merger by absorption of DFL by Dexia (EUR 1.6 million), by short-term investments with Dexia Crédit Local (EUR 0.2 million), by fixed income instruments held in the portfolio (EUR 0.2 million) and by deferred tax advances (EUR 0.2 million).

Other financial income (EUR 5.8 million) are the result of capital gains realized on the repayment of fixed-income instruments held by the issuers, thanks to the recovery of the financial markets since their acquisition in 2012.

The **non-recurring financial income** (EUR 12.6 million) (See note 4.19.) includes a reversal of the provision following a re-estimation of the costs related to the guarantees granted on the sale of investments (EUR 9.6 million) as well as a re-adjustment of the sales price of Dexia International Bank in Luxembourg (today International Bank in Luxembourg) sold on 5 October 2012, as a result of guarantees given and received (EUR 3 million)

Other financial charges (EUR 0.3 million) concerns expenses related to the regrouping of the Dexia share (EUR 0.2 million) as well as the expenses related to the listing of the Dexia share, the management fees for the securities and storage costs for the balance (EUR 0.1 million).

Non-recurring financial charges (EUR 4.9 million) represent an indemnity paid in connection with the revision of the selling price of a subsidiary.

4.5.3. CORPORATE INCOME TAX

Taxes (EUR -5.7 million)

The taxes concern the regularization of tax savings for the previous exercises (EUR 1,4 million) to which a regularization of the estimated taxes for the year 2012 is added by Dexia Funding Luxembourg that has been absorbed by Dexia on 9 May 2012 (EUR 0,3 million).
A provision for estimated tax costs of EUR 4 million has also been allocated (see section 4.3.5 Provisions for fiscal charges)

Adjustments of income taxes (EUR 1.6 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 tax saving representing a gain of EUR 1.5 million for the year 2016. In addition, a regularization of the estimated tax of 2015 resulted in a tax profit (EUR 0.1 million).

4.5.4. PROFIT FOR THE FINANCIAL YEAR

Considering the above, the 2016 financial year closed with a profit of EUR 14.5 million.

4.6. Statement of intangible fixed assets (licences)

(in EUR)	Amounts
ACQUISITION VALUE AS AT 31/12/15	**14,522,452**
Movements during the period:	
- Acquisitions, including produced fixed assets	59,972
ACQUISITION VALUE AS AT 31/12/16	**14,582,424**
DEPRECIATION AS AT 31/12/15	**13,931,123**
Movements during the period:	
- Recorded	342,616
DEPRECIATION AS AT 31/12/16	**14,273,739**
NET BOOK VALUE AS AT 31/12/16	**308,685**

4.7. Statement of tangible fixed assets

(in EUR)	Plant, machinery and equipment	Furniture and vehicles	Other tangible fixed assets
ACQUISITION VALUE AS AT 31/12/15	**288,348**	**5,947,498**	**1,604,450**
Movements during the period:			
- Acquisitions	0	8,743	0
- Sales and disposals	0	(4,164,759)	0
ACQUISITION VALUE AS AT 31/12/16	**288,348**	**1,791,482**	**1,604,450**
DEPRECIATION AS AT 31/12/15	**269,406**	**5,630,957**	**1,426,329**
Movements during the period:			
- Recorded	5,736	104,109	176,644
- Canceled due to sales and disposals	0	(4,164,759)	0
DEPRECIATION AS AT 31/12/16	**275,142**	**1,570,307**	**1,602,973**
NET BOOK VALUE AS AT 31/12/16	**13,206**	**221,175**	**1,477**

4.8. Statement of financial fixed assets

1. PARTICIPATING INTERESTS AND SHARES

(in EUR)	1. Affiliated	2. Other enterprises
ACQUISITION VALUE AS AT 31/12/15	**17,046,965,606**	**2,001,000**
Movements during the period:		
- Acquisitions	250,000,000	0
ACQUISITION VALUE AS AT 31/12/16	**17,296,965,606**	**2,001,000**
	1. Affiliated	**2. Other enterprises**
AMOUNTS WRITTEN DOWN AS AT 31/12/15	**14,953,824,257**	**0**
Movements during the period:	0	0
AMOUNTS WRITTEN DOWN AS AT 31/12/16	**14,953,824,257**	**0**
NET BOOK VALUE AS AT 31/12/16	**2,343,141,349**	**2,001,000**

2. AMOUNTS RECEIVABLE

(in EUR)	1. Affiliated	2. Other enterprises
NET BOOK VALUE AS AT 31/12/15	**0**	**98,117**
Movements during the period:		
- Additions	0	284
- Reimbursement	0	(85,126)
NET BOOK VALUE AS AT 31/12/16	**0**	**13,275**
ACCUMULATED WRITING-OFF'S ON RECEIVABLES AT 31/12/16	**0**	**0**

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
	Nombre	%	%			(+) or (-) (in monetary unit)	
Dexia Crédit Local SA - FC [1] 1, passerelle des Reflets, Tour Dexia - La Défense 2 F-92919 Paris Common shares	279,213,332	100.00	0.00	31/12/15	EUR	1,025,416,250	60,179,506
Dexia Nederland BV - FC [1] Parnassusweg 819 NL-1082 LZ Amsterdam Common shares	50,000	100.00	0.00	31/12/15	EUR	237,763,000	(16,739,000)
Dexiarail SA - FC [1] 1, passerelle des Reflets, Tour Dexia - La Défense 2 F-92919 Paris Common shares	9,166	100.00	0.00	31/12/15	EUR	112,838	(4,991)
White Rock Insurance PCC Ltd - FC [1] Cell Dexia 913 Europort Gibraltar Common shares	1	100.00	0.00	31/12/15	EUR	1,362,805	(163,356)

(1) FC: Foreign Company

4.10. Current investments : other investments and deposits

(in EUR)	Previous period	Period
Fixed income	**145,011,263**	**119,973,044**
Fixed term deposits with credit institutions with a residual maturity or period of notice of:	**704,000,000**	**523,000,000**
- More than one month but within one year	704,000,000	523,000,000

4.11. Deferred charges and accrued income from the assets

(in EUR)	Period
Deferred charges : Services and other goods	1,302,891
Accrued income: Interest	101,428

4.12. Statement of capital and shareholder's structure

A. ISSUED CAPITAL

	Amounts (in EUR)	Number of shares
ISSUED CAPITAL AS AT 31/12/15	**500,000,000**	**30,896,352**
Changes during the period:	0	0
ISSUED CAPITAL AS AT 31/12/16	**500,000,000**	**30,896,352**

B. STRUCTURE OF THE CAPITAL

	Amounts (in EUR)	Number of shares
Different categories of shares		
Common shares class A without indication of nominal value, each representing 1/30,896,352 of the issued capital	1	1,948,984
Preferred shares class B without indication of nominal value, each representing 1/30,896,352 of the issued capital	499,999,999	28,947,368
- Registered shares		29,172,322
- Dematerialized shares		1,724,030

C. OWN SHARES HELD BY:

	Amount of capital (in EUR)	Number of shares
- the company itself	0	0
- its direct subsidiaries	5,227	323

D. COMMITMENTS TO ISSUE SHARES

	Amount of capital (in EUR)	Number of shares
Following the exercising of subscription rights :		
- Number of outstanding subscription rights		21,968,453
- Amount of capital to be issued	355,519	
- Corresponding maximum number of shares to be issued		21,968,453

E. AMOUNTOF AUTHORIZED CAPITAL, NOT ISSUED

Amounts (in EUR)
500,000,000

F. 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 : 44,397 %

Federal Holding and Investment Company (FHIC) for Belgium : 50,018%

4.13. Provisions for liabilities and charges

(in EUR)	Period
Provision for guarantees related to the sale of participations	45,965,582
Severance payments and related costs	19,036,027
Provision for several risks	17,000,000
Commitment as head of a fiscal consolidation (France)	1,307,265

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**
Financial debts	**39,788,000**
Subordinated loans	39,788,000

4.15. Amounts payable for taxes, remuneration and social security

(in EUR)	Period
Taxes	
a) Expired taxes payable	0
b) Non-expired taxes payable	120,332
c) Estimated taxes payable	11,047
Remuneration and social security	
a) Amounts due to the National Office of Social Security	0
b) Other amounts payable relating to remuneration and social security	2,519,141

4.16. Accrued charges and deffered income in the liabilities

(in EUR)	Period
Accrued charges : rent	348,398
Accrued charges : other general operating expenses	68,845
Accrued charges: interests	35,524

4.17. Operating results

(in EUR)	Previous period	Period
OPERATING INCOME		
Other operating income		
Whereof: the total amount of subsidies and compensatory amounts obtained from public authorities	115,437	21,937
OPERATING CHARGES		
Employees for which the enterprise has declared a DIMONA-statement or employees recorded in a general personnel register in Belgium		
b) Total number at the closing date	77	67
b) Average number of employees in full-time equivalents	76.0	68.6
c) Number of actual working hours	109,617	96,611
Personnel charges		
a) Remuneration and direct social benefits	8,901,525	7,641,022
b) Employers' contribution for social security	2,606,956	2,135,896
c) Employers' premium for extra statutory insurance	751,633	637,618
d) Other personnel charges	204,337	174,883
e) Old-age and widow's pensions	6,949	6,993
Provisions for liabilities and charges		
Increases	150,838	150,840
Other operating charges		
Taxes related to operations	236,653	80,074
Other charges	418,066	793,371

4.18. Financial and exceptional results

(in EUR)	Previous period	Period
Other financial income		
Exchange differences	2,467	5,273
Gain at refund of fixed-income securities	4,663,063	5,841,293
Interests on late payments and moratory interests	11,450,026	0
Other financial charges		
Exchange differences	77,604	6,817
Service costs related to the management of actions	5,500	4,860
Charges related to the quotation of the Dexia share	45,088	60,432
Storage costs	24,533	26,844
Charges related to the regrouping of the Dexia share	0	199,992
Other financial charges	12,804	20,548

4.19. Income and expenses of exceptional size or exceptional degree of occurance

(in EUR)	Previous period	Period
NON-RECURRING INCOME	102,225,905	64,598,844
Non-recurring operating income	122,690	51,954,712
Write back of provisions for exceptional operational risks and charges	0	35,229,981
Other non-recurring operating income	122,690	16,724,731
Non-recurring financial income	102,103,215	12,644,132
Write back of provisions for exceptional financial risks and charges	0	9,600,000
Other non-recurring financial income	102,103,215	3,044,132
NON-RECURRING CHARGES	50,002,837	36,731,403
Non-recurring operational charges	33,375,714	31,810,727
Provisions for exceptional operating risks and charges: Additions (+)/utilization (-)	26,311,625	26,420,651
Other non-recurring operational charges	7,064,089	5,390,076
Non-recurring financial charges	16,627,123	4,920,676
Provisions for exceptional financial risks and charges: Additions (+)/utilization (-)	16,600,000	0
Losses on disposal of fixed assets	27,123	0
Other non-recurring financial charges	0	4,920,676

4.20. Income taxes

(in EUR)	Period
Income taxes of the current period:	**7,640**
a) Taxes and withholding taxes due or paid	7,640
Income tax of previous years	**5,701,912**
a) Additional tax due or paid	1,701,912
b) Estimated additional taxes or taxes for which a provision was formed	4,000,000
Principal sources of differences between the profit before taxes, mentionned in the accounts, and the estimated taxable profit	
a) Fiscal integration in France (PM)	1
b) Provisions non tax deductible	26,420,651
c) Write back of non deductible provisions	(44,829,981)
d) Non tax deductible expenditure	4,920,676
e) Exempted income	(3,044,132)
Impact of the exceptional results in the taxes on the profit of the year	
It's only the non-recurring other exploitation charges and income that are taxable	11,334,655
Status of deferred taxes:	
a) Deferred taxes representing assets	4,869,920,521
Accumulated tax losses deductible from future taxable profits	4,710,566,619
Other deferred taxes representing assets	
- Surplus of revenues definitively taxed	159,010,554
- Surplus on depreciations	343,348

4.21. Value added tax and taxes borne by third parties

(in EUR)	Previous period	Period
Total amount of value added tax charged during the period :		
1. To the enterprise (deductible)	147,505	145,066
2. By the enterprise	2,330	453
Amounts retained on behalf of third parties for:		
1. Payroll withholding taxes	3,953,114	3,282,235
2. Withholding taxes on investment income	0	0

4.22. Rights and commitments not reflected in the balance sheet

(in EUR)	Period
Guarantees given or irrevocably promised by the enterprise on its own assets collateral for own debts and liabilities of the company	
Pledging of other assets - Book value of assets pledged	150,324,996

Amount, nature and form of litigations and other rights and obligations not recognized in the balance sheet.
See note 4.4.

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 wich both employees and staff premiums have been paid to a group insurance. Some members of the Management Board also benefit from a supplementary scheme of which the contributions are paid to an external insurance company. (See note "Remuneration of the members of Management Board" in the section "Declaration of corporate governance" of the management report).

5. Financial relationships

5.1. Relationships with affiliated enterprises

	Affiliated enterprises	
(in EUR)	Previous period	Period
FINANCIAL FIXED ASSETS	**2,093,141,349**	**2,343,141,349**
Participations	2,093,141,349	2,343,141,349
AMOUNTS RECEIVABLE	**85,366,893**	**92,007,500**
After one year	85,262,692	89,268,336
Within one year	104,201	2,739,164
CURRENT INVESTMENTS	**704,000,000**	**523,000,000**
Amounts receivable	704,000,000	523,000,000
AMOUNTS PAYABLE	**3,196,325**	**2,121,962**
Within one year	3,196,325	2,121,962
FINANCIAL RESULTS		
Income from current assets	2,323,290	362,361
Debt charges	0	51,645
DISPOSAL OF FIXED ASSETS		
Realized losses	27,123	0

5.2. Transactions with related parties outside of normal market conditions

Nihil.

5.3. Relationships with directors and managers, individuals or bodies corporate 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	1,925,455
To the former directors	951,681

5.4. Relationships with affiliated auditor

Remuneration of the Statutory Auditor	395,000
Remuneration for exceptional tasks executed within the enterprise by the Statutory Auditor	
Other missions external to the audit	54 120

6. Declaration concerning the consolidated accounts

The enterprise has established and published the consolidated accounts and a consilidated financial statement.

7. Social report

Number of the joint commission of the company: 200

7.1. Statement of the persons employed in 2016

A. EMPLOYEES FOR WHICH THE ENTERPRISE HAS DECLARED A DIMONA-STATEMENT OR EMPLOYEES RECORDED IN THE GENERAL STAFF REGISTER

1. During the period	Total	1. Male	2. Female
a. Average number of employees			
full-time	63.1	38.3	24.8
part-time	9.1	6.8	2.3
TOTAL FULL-TIME EQUIVALENTS (FTE)	**68.6**	**41.8**	**26.8**
b. Number of actual working hours			
Full-time	91,141	54,950	36,191
Part-time	5,470	2,645	2,825
TOTAL	**96,611**	**57,595**	**39,016**
c. Personnel charges			
Full-time	10,014,324	6,393,353	3,620,971
Part-time	575,095	357,122	217,973
TOTAL	**10,589,419**	**6,750,475**	**3,838,944**

2. During the previous year	P. Total	1P. Male	2P. Female
Average number of employees in FTE	76.0	47.3	28.7
Number of actual working hours	109,617	68,910	40,707
Personnel charges	12,464,451	8,868,647	3,595,804

3. As at the closing date of the period	Full-time	Part-time	Total of full-time equivalents
a. Number of employees recorded in the personnel register	58	9	64,1
b. By nature of the employment contract			
Contract of indefinite period	58	9	64,1
c. According to gender and by level of education			
Male :	36	6	39,6
secondary education	4	0	4,0
higher non-university education	4	1	4,5
university education	28	5	31,1
Female :	22	3	24,5
secondary education	2	0	2,0
higher non-university education	3	2	4,7
university education	17	1	17,8
d. By professional category			
Management staff	8	2	9,6
Employees	50	7	54,5

7.2. Table of personnel movements during the period

A. ENTRIES

	Full-time	Part-time	Total of full-time equivalents
a. Number of employees for which the enterprise has declared a DIMONA-statement or employees recorded in the general staff register in Belgium during the period	7	0	7.0
b. By nature of the employment contract			
Contract for an indefinite period	3	0	3.0
Contract for an definite period	4	0	4.0

B. DEPARTURES

	Full-time	Part-time	Total of full-time equivalents
a. Number of employees for which the enterprise declared a DIMONA-statement or number of employees with a in the in Belgium general staff register listed date of termination of the contract during the period	16	0	16.0
b. By nature of the employment contract			
Contract for an indefinite period	13	0	13.0
Contract for an definite period	3	0	3.0
c. According to the reason for termination of the employment contract			
Dismissal	2	0	2.0
Other reason	14	0	14.0
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	27	25
Number of training hours	341	323
Net costs for the enterprise (in EUR)	67,776	52,621
- whereof gross costs directly associated with the company (in EUR)	50,933	43,316
- dont cotisations payées et versements à des fonds collectifs	16,843	9,305
Total of less formal and informal continuing vocational training initiatives for workers paid by the employer		
Number of employees involved	2	4
Number of training hours	77	277
Net costs for the enterprise (in EUR)	28,306	37,998

Dexia SA
Statutory auditor's report to the shareholders' meeting on the annual accounts for the year ended 31 December 2016

As required by law and the company's articles of association, we report to you in the context of our appointment as the company's statutory auditor. This report includes our report on the annual accounts together with our report on other legal and regulatory requirements. These annual accounts comprise the balance sheet as at 31 December 2016 and the income statement for the year then ended, as well as the summary of accounting policies and other disclosures.

Report on the annual accounts – Unqualified opinion with emphasis of matter paragraph on the application of the valuation rules in going concern

We have audited the annual accounts of Dexia SA ("the company"), prepared in accordance with the financial reporting framework applicable in Belgium, which show total assets of 3 123 429 (000) EUR and a profit for the year of 14 (000) EUR.

Board of directors' responsibility for the preparation of the annual accounts

The board of directors is responsible for the preparation and fair presentation of 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 annual accounts that are free from material misstatement, whether due to fraud or error.

Statutory auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA) as adopted in Belgium. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the annual accounts. We have obtained from the company's officials and the board of directors the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unqualified opinion

In our opinion, the annual accounts of Dexia SA give a true and fair view of the company's net equity and financial position as of 31 December 2016 and of its results for the year then ended, in accordance with the financial reporting framework applicable in Belgium.

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

Without modifying the above unqualified opinion, we draw your attention to point 4 of the notes to the annual accounts which states that the annual accounts of Dexia SA as of 31 December 2016 have been prepared using the going concern principle in accordance with article 96 §1, 6° of the Companies Code.

The justification of the going concern assumption is supported by a revised business plan, underlying the the orderly resolution of Dexia group, approved by the group's board of directors on 16 November 2016 and which is taking into account a.o. the following assumptions:

- The business plan was constructed from market data observable at the end of September 2012; the underlying macroeconomic assumptions are reviewed as part of the semi-annual reviews of the overall plan. In particular, the updates made on the basis of market data as at 30 June 2016 and validated by the board of directors of Dexia on 16 November 2016 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments known to date.

• The business plan assumes the maintenance of the banking licences of the various entities and the rating of Dexia Crédit Local SA.
• The business plan 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 secure funding. 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 business plan.
• The realization of the business plan 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 compliance with certain regulatory ratios over time.
• The 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 weight on the group's liquidity and its solvency position, by increasing the amount of cash collateral paid by Dexia to its derivative counterparties. The evolution on these parameters might impact the valuations of the financial assets and liabilities and 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.
With respect to the realisation of the revised business plan, taking into account the numerous exogenous variables, uncertainties remain as of the date of this report.
The going concern assumption is only justified to the extent that the group succeeds in realizing its revised business plan based on the underlying assumptions described in point 4 of the notes to the annual accounts. No adjustments have been recorded with respect to the valuation or the classification of certain balance sheet items, which would be required, should the group no longer be able to continue its operations.

Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the directors' report on the annual accounts, as well as for maintaining the company's accounting records in compliance with the legal and regulatory requirements applicable in Belgium and for the company's compliance with the Companies Code and the company's articles of association.
As part of our mandate and in accordance with the Belgian standard complementary to the International Standards on Auditing applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we make the following additional statements, which do not modify the scope of our opinion on the annual accounts:

• The director's report, prepared in accordance with articles 95 and 96 of the Companies Code and to be filed in accordance with article 100 of the Companies Code, includes, both in form and in substance, the information required by law, is consistent with the annual accounts and is free from any material inconsistencies with the information that we became aware of during the performance of our mandate.
• The social balance sheet, to be filed in accordance with article 100 of the Companies Code, includes, both in form and in substance, the information required by law and is free from any material inconsistencies with the information available in our audit file.
• 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 requirements of the law and the company's articles of association.
• There are no transactions undertaken or decisions taken in violation of the company's articles of association or the Companies Code that we have to report to you.
• Regarding the legal requirements concerning conflicts of interests (article 523 of the Companies Code) the decision of the board of directors of 14 October 2016 on the finalization the contract with the Chief Executive Officer and the adaptation of the severance payment clause, as disclosed in the "Declaration of corporate governance" on page 45 of the annual report, has the following financial consequences: *"Mr Wouter Devriendt leaves the meeting of the Board, in application of Article 523 of the Companies Code.The contract of Mr Wouter Devriendt in the capacity of Chairman of the Management Board contains a severance clause by which a payment of 3 months of remuneration will be made in the event of his contract being terminated by Dexia (on any grounds other than severe wrong). This clause originates from the contract concluded with his predecessor. It should be observed nonetheless that, considering his age, the situation of Mr Wouter Devriendt is not comparable with that of his predecessor. It is therefore proposed to adapt this clause in order to extend the severance payment thus provided to 1 month of remuneration per year of service, with a minimum of 3 months and a maximum of 9 months, which corresponds to the ceiling contained in the Banking Act. It is in the interests of Dexia to be able to offer the Chief Executive Officer a reasonable severance payment clause suited to the circumstances of the particular case.*
Decision : *the Board of Directors unanimously decides on the proposal from the Remuneration Committee, to adapt the management contract of Mr Wouter Devriendt in order to extend the payment provided in the case of severance on the initiative of Dexia to 1 month of remuneration per year of service, with a minimum of 3 months and a maximum of 9 months (…)."*
• *Regarding the legal requirements concerning conflicts of interests (article 524 of the Companies Code) the decision of the management board of 6 September 2016 on the grant-*

ing of an indemnification guarantee to the new directors by Dexia as disclosed in the "Declaration of corporate governance" on page 44 of the annual report, has the following financial consequences: "It is recalled that by a decision of the Board of Directors of Dexia on 13 March 2014, it was decided in principle to grant members of the Board of Directors and the Management Board of Dexia, as well as members of the Board of Directors of Dexia Crédit Local, an indemnification guarantee against the risk of their liability being incurred by virtue of their mandate(s).
The Board of Directors, at its meetings on 13 March 2014, 13 November 2014 and 6 July 2015, and the Management Board of Dexia, at its meetings on 25 March 2014 and 10 May 2016 therefore approved the grant of an indemnification guarantee to each director and member of the Management Board of Dexia and Dexia Crédit Local exercising a mandate on those dates or those whose mandate began after those dates.
The indemnification undertaking is limited to what is permitted by the Law. For a description of the conditions and limits of the guarantee, reference is made to the statement in the minutes of the meeting of the Board of Directors on 13 March 2014.
This indemnification guarantee must today be extended to the new directors recently appointed, namely Mrs Alexandra Serizay and Mrs Véronique Hugues.
If necessary, the procedure in relation to the prevention of conflicts of interest must be applied (description of the grounds substantiating the conflict, auditor information, reminder in the management report, abstention of the person concerned).
Within the context of the appointment of Mrs Alexandra Serizay, who was co-opted as a director of Dexia Crédit Local on 15 June 2016, and who will join the Dexia Board on the receipt of approval from the European Central Bank, and the appointment of Mrs Véronique Hugues as a director and member of the Management Board of Dexia Crédit Local and of Dexia, it is proposed that the Management Board grant an indemnification guarantee to them both, under the same conditions and within the same limits as those applicable to the guarantees granted previously.
Prior to the discussion on the proposal to grant an indemnification guarantee to Mrs Véronique Hugues and Mrs Alexandra Serizay, Mrs Véronique Hugues informs the other members of the Board, in accordance with Article 524ter of the Companies Code, that she might have an interest opposed to the decision envisaged since it concerns her personal situation, being a member of the Management Board and benefiting from the planned indemnification guarantee. Mrs Véronique Hugues does not take part in the deliberation or the vote in relation to that decision and therefore leaves the meeting of the Board.
***Decision:** the Board considers that this decision is in the company's corporate interest since it meets the requirements of the Dexia Group in recruiting and retaining competent executives. As an institution engaged in a process of orderly resolution at risk and the financial situation of which is subject in particular to many external parameters, Dexia has an interest in offering solid liability cover in order to recruit quality executives.*

The Chairman presents a draft letter from Dexia for the attention of Mrs Alexandra Serizay and Mrs Véronique Hugues in which the company undertakes to keep them indemnified for all prejudicial consequences associated with their mandate."
The Management Board approves the draft letters relating to this guarantee.

- *Regarding the legal requirements concerning conflicts of interests (article 524 of the Companies Code) the decision of the management board of 10 January 2017 on the granting of an indemnification guarantee to the new directors by Dexia as disclosed in the "Declaration of corporate governance" on page 45 of the annual report, has the following financial consequences:" It is recalled that by a decision of the Board of Directors of Dexia on 13 March 2014, it was decided in principle to grant members of the Board of Directors and the Management Board of Dexia, as well as members of the Board of Directors of Dexia Crédit Local, an indemnification guarantee against the risk of their liability being incurred by virtue of their mandate(s).*
The Board of Directors, at its meetings on 13 March 2015, 13 November 2014 and 6 July 2015, and the Management Board of Dexia, at its meetings on 25 March 2014, 10 May 2016 and 6 September 2016 therefore approved the grant of an indemnification guarantee to each director and member of the Management Board of Dexia and Dexia Crédit Local exercising a mandate on those dates or those whose mandate began after those dates. The indemnification undertaking is limited to what is permitted by the Law. For a description of the conditions and limits of the guarantee, reference is made to the statement in the minutes of the meeting of the Board of Directors on 13 March 2014.
This indemnification guarantee must today be extended to members of the Management Board who were recently appointed, namely Mrs Aline Bec and Mr Guy Cools. If necessary, the procedure in relation to the prevention of conflicts of interest must be applied (description of the grounds substantiating the conflict, auditor information, reminder in the management report, abstention of the person concerned). It is proposed that the Management Board grant an indemnification guarantee to Mrs Aline Bec and Mr Guy Cools, under the same conditions and within the same limits as those applicable to the guarantees previously granted.
Prior to the discussion on the proposal to grant an indemnification guarantee to Mrs Aline Bec and Mr Guy Cools, Mrs Aline Bec and Mr Guy Cools inform the other members of the Board, in accordance with Article 524ter of the Companies Code, that they might have an interest opposed to the decision envisaged since it concerns their personal situations, being members of the Management Board and benefiting from the planned indemnification guarantee.
They inform the company's auditor of that duality of interests. Mrs Aline Bec and Mr Guy Cools do not take part in

the deliberation or the vote on that decision and therefore leave the meeting of the Board.

Decision: *the Board considers that this decision is in the company's corporate interest since it meets the requirements of the Dexia Group in recruiting and retaining competent executives. As an institution engaged in a process of orderly resolution at risk and the financial situation of which is subject in particular to many external parameters, Dexia has an interest in offering solid liability cover in order to recruit quality executives.*

The Chairman presents a draft letter from Dexia for the attention of Mrs Aline Bec and Mr Guy Cools in which the company undertakes to keep them indemnified for all prejudicial consequences associated with their mandate. The Management Board approves the draft letters relating to this guarantee."

Zaventem, 3 April 2017

The statutory auditor

DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises
BV o.v.v.e. CVBA / SC s.f.d. SCRL
Represented by Yves Dehogne

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, 27 March 2017

For the Management Board

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

General data

Name

The company is called "Dexia".

Registered Office

The registered office of the company is in Belgium at Place du Champ de Mars, 5, 1050 Brussels (RPM Brussels VAT BE 0458.548.296).

Legal form, incorporation, duration

The company is a limited company under Belgian law that makes a public appeal for investment. It was incorporated on 15 July 1996 for an indefinite period. The company has one permanent office located in Paris.

Corporate object

Article 3 of the articles of association reads as follows:

"The company has the object, both in Belgium and in other countries of:

1. the acquisition, holding, management and sale, by whatever means, of all equity interests in companies or any other legal entities, whatever their legal form, existing or to be created, which operate as credit institutions, insurance or reinsurance companies or which carry on financial, industrial, commercial or civil, administrative or technical activities, as well as all types of shares, bonds, public funds and any other financial instruments of whatever nature;

2. the acquisition, holding, management and sale, by whatever means, of all equity interests in companies or any other legal entities, whatever their legal form, existing or to be created, which operate as credit institutions, insurance or reinsurance companies or which carry on financial, industrial, commercial or civil, administrative or technical activities, as well as all types of shares, bonds, public funds and any other financial instruments of whatever nature;

3. the conducting of all movable property, real property, financial, industrial, commercial or civil transactions including the acquisition, management, leasing and sale of all movable and real property, related directly or indirectly to the realization of its corporate object or likely to contribute to such realisation."

Places where the public may consult documents

The articles of association of the company are available at the office of the Clerk to the Commercial Court of Brussels and at the company's registered office. The annual reports as well as the annual financial statements and the consolidated financial statements are lodged with the National Bank of Belgium. These documents may also be obtained from the company's registered office. Decisions in relation to appointments and resignations of members of the Board of Directors are published in the Appendix to the Belgian Official Journal. Financial notices concerning the company are published on its website (www.dexia.com). The convocations to Shareholders' Meetings are published on the website and in the financial newspapers, the daily press and periodicals.

Dexia's annual report 2016 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.

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www.dexia.com

FINANCIAL CALENDAR

Ordinary shareholders' meeting for the 2016 financial year
17 May 2017

Results as at 30 June 2017
31 August 2017

Results as at 31 December 2017
1 March 2018

Ordinary shareholders' meeting for the 2017 financial year
16 May 2018

As from 2017, Dexia will no longer publish quarterly results, as it is eager to achieve operational simplification, linked to implementation of the Group's resolution plan.

DEXIA