H1 2019

FINANCIAL REPORT

DEXIA CRÉDIT LOCAL DCL

CONTENTS

MANAGEMENT REPORT(*)

FINANCIAL HIGHLIGHTS

CONSOLIDATED STATEMENT OF INCOME – ANC FORMAT		
in millions of EUR	H1 2018(1)	H1 2019
Net banking income	**-100**	**-203**
Operating expenses	-210	-183
Depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-9	-13
GROSS OPERATING INCOME	**-319**	**-399**
Cost of credit risk	49	23
Net gains or losses on other assets	8	0
NET RESULT BEFORE TAX	**-262**	**-376**
Income tax	-6	-5
Result from discontinued operations, net of tax(1)	16	-117
NET INCOME	**-252**	**-498**
Minority interests	-5	-25
NET INCOME, GROUP SHARE	**-247**	**-473**

(1) Pro forma for H1 2018.

BALANCE SHEET KEY FIGURES – ANC FORMAT			
in millions of EUR	30/06/2018	31/12/2018	30/06/2019
TOTAL ASSETS	**167,787**	**158,356**	**133,647**
of which			
Cash and central banks	9,881	9,269	6,752
Financial assets at fair value through profit or loss	15,468	13,420	15,243
Hedging derivatives	4,627	1,263	1,311
Financial assets at fair value through other comprehensive income	7,778	4,860	2,625
Financial assets at amortised cost - Debt securities	48,470	45,128	45,182
Financial assets at amortised cost - Interbank loans and advances(1)	27,157	23,654	26,577
Financial assets at amortised cost - Customer loans and advances(1)	52,737	35,143	34,636
Non current assets held for sale	0	24,387	0
TOTAL LIABILITIES	**161,152**	**151,632**	**127,200**
of which			
Financial liabilities at fair value through profit or loss(2)	13,116	11,872	14,790
Hedging derivatives(2)	25,487	21,151	21,944
Interbank borrowings and deposits(3)	28,984	20,930	19,900
Customer borrowings and deposits(3)	6,471	4,873	3,004
Debt securities	86,259	67,959	66,519
Liabilities included in disposal groups held for sale	0	24,055	0
TOTAL EQUITY	**6,635**	**6,724**	**6,447**
of which			
Equity, Group share	6,335	6,444	6,191

(1) Since 31 December 2018, the definition of credit institutions in the financial statements and in the FINREP regulatory statements has been harmonised. Some counterparties have been reclassified from "Loans and receivables from credit institutions" to "Loans and receivables from customers". As a result, the figures as at 30 June 2018 have been revised: an amount of EUR 4,829 million has been reclassified from "Loans and receivables from credit institutions and similar entities, at amortised cost" to "Loans and receivables from customers, at amortised cost".
(2) Pro forma for 30 June 2019.
(3) Since 31 December 2018, the definition of credit institutions in the financial statements and in the FINREP regulatory statements has been harmonised. Some counterparties have been reclassified from "Amounts owed to credit institutions" to "Amounts owed to customers". As a result, the figures as at 30 June 2018 have been revised: an amount of EUR 2,991 million has been reclassified from "Amounts due to credit institutions and similar" to "Amounts due to customers".

(*) The management report data are unaudited.

INTRODUCTION

Since its entry into orderly resolution, Dexia Crédit Local has been implementing a proactive strategy to reduce its activities and its balance sheet. The first half of 2019 represents an important step in this dynamic, due in particular to the completion of the sale of Dexia Kommunalbank Deutschland (DKD), its banking subsidiary in Germany, the closure of DCL Madrid and the launch of the transformation of its American branch (DCL New York). In addition, Dexia Crédit Local maintained good momentum in the sale of its commercial asset portfolios and took, in May and then in July, structuring decisions on two new disposal programmes.

Dexia Crédit Local took advantage of favourable market conditions, in particular in the United States, to implement this strategy. In this highly volatile environment, Dexia Crédit Local continues to seek all measures to simplify and reduce risks.

1. SIGNIFICANT EVENTS AND TRANSACTIONS

A. Balance sheet reduction and simplification of the Group structure

Asset portfolio reduction

Other than the sale of DKD, at the end of June 2019, the asset portfolios were down by EUR 5.8 billion compared to the end of December 2018, including EUR 3.8 billion in disposals, EUR 0.4 billion in early redemptions and EUR 1.6 billion in natural amortisation. The proportion of assets denominated in non-euro currencies is significant and amounts to 75% of total sales over the half-year.

As part of DCL New York's transformation and in order to facilitate the transfer of the entity's balance sheet to the head office of Dexia Crédit Local in Paris, the Board of Directors of Dexia decided to sell a significant portfolio of assets held by that branch (cf. the section "Transformation of the Dexia Crédit Local Branch in New York"). Market dynamics in the United States made it possible to implement this decision under favourable conditions. During the half-year, Dexia Crédit Local sold EUR 2.4 billion of US assets, with an impact of EUR -89 million on the Group's result. The assets sold include the entire ABS student loan portfolio (EUR 1.1 billion) as well as public sector assets (EUR 1.3 billion).

On 5 September 2019, the amount of sales amounted to EUR 6.7 billion, of which EUR 5.0 billion of US assets. Dexia Crédit Local also reached an agreement for the sale of almost all of its exposure to the Chicago Board of Education.

Dexia Crédit Local also continued its proactive disposal of other asset classes.

In addition, on 19 July 2019, the Board of Directors of Dexia approved the implementation of a second asset disposal programme. This programme falls within the framework of changes to and strengthening of the regulatory requirements applicable to the Dexia Group (cf. the section "Strengthening of prudential requirements") and reflects a prudent approach to risk management. In particular, it targets sales, which will enable Dexia Crédit Local to reduce its exposure to market risk, including liquidity risk, while preserving its solvency position.

These two strategic decisions taken by the Board of Directors of Dexia result in a change in the business model applicable to the selected portfolios. The assets concerned, which had been classified at amortised cost at the time of the first application of IFRS 9, will be reclassified at fair value through profit or loss (FVP&L) or fair value through equity (FVOCI) on 1 July 2019 for the US asset portfolio and on 1 January 2020 for the second portfolio respectively.

The disposals planned within the framework of these two plans will in time reduce Dexia's credit risk exposure and its balance sheet sensitivity, although in the meantime the reclassification of those assets in fair value will expose Dexia Crédit Local to changes in macroeconomic conditions.

Closure of Dexia Crédit Local Madrid

Following the restructuring undertaken in 2016 and the transfer of all assets to the head office in Paris in 2018, Dexia Crédit Local definitively closed the Madrid branch on 29 March 2019.

Finalisation of the sale of DKD to Helaba

On 1 May 2019, after obtaining all the regulatory authorisations, Dexia Crédit Local concluded the sale of DKD to Helaba for a total amount of EUR 352 million.

For Dexia Crédit Local, this transaction is reflected by a EUR 24.4 billion reduction of its balance sheet total. The net impact of the sale on the statement of income amounts to EUR -117 million, but the impact on the Group's solvency ratios is slightly positive and amounts to 15 basis points. These impacts have been booked in the Dexia Crédit Local consolidated financial statements as at 30 June 2019.

Dexia Crédit Local has terminated the letters of support granted to DKD, with effect as at the date of conclusion of the sale.

DKD now operates under the name of KOFIBA-Kommunalfinanzierungsbank GmbH.

Transformation of the Dexia Crédit Local branch in New York

At the beginning of 2019, Dexia Crédit Local began implementing the transformation of its New York branch. This project, which is within the framework of the Group's process of reducing its geographical footprint and simplifying operations, has three components:

- The transfer to Dexia Crédit Local's Paris head office of the portfolios of assets, funding and derivatives related to these operations. This transfer is planned for 1 October 2019;
- The centralisation of management processes currently under the responsibility of Dexia Crédit Local New York;
- The transformation, during the first half of 2020, of Dexia Crédit Local New York as a representative office.

In order to facilitate the transfer of asset portfolios and to reduce the operational risk associated with such transfer, Dexia Crédit Local initiated a programme of US asset disposals, which should continue throughout 2019 (cf. the section "Asset portfolio reduction").

B. Strengthening of prudential requirements

As previsously stated[1], since the start of 2019 Dexia has no longer benefited from the specific approach to supervision which had been applied to the Group since 2015.

Furthermore, on 14 February 2019[2], the ECB informed the Dexia Group of the qualitative and quantitative prudential requirements with regard to solvency applicable to Dexia, Dexia Crédit Local and their subsidiaries as from 1 March 2019, in accordance with Council Regulation (EU) No 1024/2013 dated 15 October 2013. These requirements rely in particular on the conclusions drawn from the Supervisory Review and Evaluation Process (SREP).

(1) Cf. Dexia press release dated 26 July 2018, available at *www.dexia.com*.
(1) Cf. Dexia press release dated 18 February 2019, available at *www.dexia.com*.

C. Evolution of the governance

On 25 February 2019, the Dexia Crédit Local Board of Directors appointed Patrick Renouvin who succeeded Aline Bec as Chief Operating Officer and Executive Vice-President of Dexia Crédit Local's as from 1 May 2019.

Patrick Renouvin has sound experience, acquired in particular with the Banque Postale, of which he was a member of the Management Board and Head of the Solutions unit (information technologies, payments, organisation). He has also held various posts with Société Générale and worked in consultancy firms.

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

On 21 March 2019, the Dexia Crédit Local Board of Directors appointed Tamar Joulia-Paris as a director of Dexia Crédit Local as from 22 April 2019, replacing Martine De Rouck.

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

2. RESULTS H1 2019

A. Presentation of Dexia Crédit Local's condensed consolidated financial statements as at 30 June 2019

Going concern

The condensed consolidated financial statements of Dexia Crédit Local as at 30 June 2019 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions underlying the business plan for the resolution of the Dexia Group, decided upon by the European Commission in December 2012. They are listed below:

- The macroeconomic hypotheses underlying the business plan are revised as part of the half-yearly reviews of the overall plan. The update made on the basis of market data observable as at 31 December 2018 and validated by the Board of Directors of Dexia on 23 April 2019 integrates the regulatory developments known to date, including the final version of the CRD IV Directive. It also takes account of the extremely positive impact on the Dexia Crédit Local's regulatory capital of the first-time application of the IFRS 9 accounting standard as from 1 January 2018 and of the non-renewal, as from 1 January 2019, of the specific approach implemented by the European Central Bank for the supervision of the Dexia Group[1]. This update does not integrate all of the results of on-site inspections (OSI) by the European Central Bank, in particular the inspections on credit risk, IT risk and operational risk and outsourced activities, on which the definitive reports have not yet been received by Dexia.

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

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

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

- In particular, this plan is likely to be impacted by new developments in accounting and prudential rules.
- Dexia and Dexia Crédit Local are also very sensitive to the evolution of the macroeconomic environment and to market parameters, particularly exchange rates, interest rates and credit spreads. An unfavourable evolution of these parameters over time could weigh on Dexia Crédit Local's liquidity and solvency position, for instance by increasing the amount of cash collateral paid by Dexia Crédit Local to its derivatives counterparties or an impact on the valuation of financial assets and liabilities and OTC derivatives, fluctuations of which are booked in the income statement and are liable to result in a fluctuation of the level of regulatory capital. In particular, considering decisions taken by the Board of Directors of Dexia in relation to the implementation of two asset sales programmes, for a total amount of approximately EUR 18 billion, Dexia Crédit Local is exposed to the evolution of macroeconomic conditions and market parameters on these assets until their effective disposal.
- Discussions are ongoing between the European Commission and the Belgian and French States on the conditions of the renewal of the State guarantee as from 1 January 2022[3].
- Finally, Dexia Crédit Local is exposed to certain operational risks, specific to the resolution environment in which it operates.

B. Dexia Crédit Local consolidated results H1 2019

Income statement 1H 2019 (non-audited figures)

Over the first half-year 2019, Dexia Crédit Local booked net income Group share of EUR -473 million.

Over that period, net banking income was EUR -203 million, consisting of:

- The net interest margin, which corresponds to the asset carry cost and the transformation result, in an amount of EUR +9 million. The net interest margin is declining in particular due to the persistence of historically low interest rates.
- Net gains or losses on financial instruments at fair value through profit or loss, which amounted to EUR -112 million, against a background marked by the uncertainties associated with Brexit, international commercial tensions and the accommodating signals emanating from central banks. This amount reflects the unfavourable evolution of the spread between the BOR and OIS rates in euros and pounds sterling and EUR/GBP cross-currency basis swaps.

(1) Cf. Dexia press Release dated 26 July 2018, available at *www.dexia.com*.
(2) On 21 July 2017 the European Central Bank announced the end of access to the Eurosystem for wind-down entities as from 31 December 2021.
(3) Cf. Dexia press release dated 26 February 2019, available at *www.dexia.com*.

- Net gains or losses on financial instruments at fair value through other comprehensive income, in an amount of EUR -77 million, principally due to losses on asset disposals.
- Net gains or losses arising on derecognition of financial assets measured at amortised cost, in an amount of EUR -17 million, due to the sale of financial assets and liabilities.
- Other income, at EUR -5 million, mainly corresponding to the evolution of costs and provisions for legal disputes.

Operating expenses for the first half-year amounted to EUR -183 million, compared to EUR -210 million as at 30 June 2018. Of this amount, EUR -59 million was booked in the income statement as regulatory taxes and contributions, most of which were recognised in the first quarter in accordance with IFRIC 21. The EUR -27 million decrease in costs compared to the first half-year 2018 is the result of a reduction in regulatory taxes and contributions in line with the reduction in the Group's size and the improvement of its risk profile. Despite the acceleration of the simplification of the international network, the amount of general operating expenses is likely to be impacted in the second half of 2019 by transformation costs and in particular those for renewal of the IT infrastructure.

Depreciation, amortisation and impairment of tangible fixed assets and intangible assets amounted to EUR -13 million.

The cost of risk amounted to EUR +23 million and was mainly due to reversals of provisions following the sale of impaired exposures.

Pre-tax income amounted to EUR -376 million.

Result from discontinued operations, net of tax amounted to EUR -117 million and in particular included the impact of the sale of DKD, in an amount of EUR -115 million. This amount includes the net capital loss on disposal and DKD's net income as at 30 June 2019 (EUR -9 million).

Over the half-year, the tax charge was EUR -5 million.

Income attributable to minority interests amounted to EUR -25 million, resulting in a net income Group share of EUR -473 million for the first half-year.

3. EVOLUTION OF THE BALANCE SHEET, SOLVENCY AND THE LIQUIDITY SITUATION OF DEXIA CRÉDIT LOCAL

1. Balance sheet and solvency

Half-yearly evolution of the balance sheet

As at 30 June 2019, Dexia Crédit Local's consolidated balance sheet total stood at EUR 133.6 billion, compared to EUR 158.4 billion as at 31 December 2018.

On the assets side and at constant exchange rates, the significant decrease resulting from the deconsolidation of DKD (EUR-24.4 billion) and the asset portfolio reductions (EUR -5.8 billion) was partially offset by an increase in fair value elements (EUR +4.6 billion) and cash collateral paid by Dexia Crédit Local to its derivative counterparties (EUR +3 billion) due to the sharp decrease in interest rates compared to 31 December 2018.

The balance sheet total remains very sensitive to changes in this market parameter. In particular, a 10 basis point decrease in long-term interest rates, principally in pounds sterling, is likely to lead to an increase of EUR 0.7 billion in the balance sheet total.

On the liabilities side, at constant exchange rates, in addition to the impact of the deconsolidation of DKD, the evolution of the balance sheet is mainly reflected in a reduction of the stock of market funding (EUR -5.9 billion), an increase in the fair value of liabilities and derivatives (EUR +4.4 billion) and the amount of cash collateral received (EUR +1.3 billion).

The impact of exchange rate fluctuations on the evolution of the balance sheet is negligible.

Solvency

As at 30 June 2019, Dexia Crédit Local's Common Equity Tier 1 capital was EUR 6.4 billion, compared to EUR 7.0 billion as at 31 December 2018 and was principally impacted by the negative net income for the period (EUR -473 million).

In line with the requirements of the European Central Bank, two elements were deducted from regulatory capital in a total amount of EUR -191 million:

- the theoretical loss corresponding to remediation on a failure to observe the constraint regarding large exposures, for an amount of EUR -142 million[1];
- the amount of irrevocable payment commitments (IPCs) to resolution funds and other guarantee funds, which amounts to EUR -49 million.

In addition, following its on-site inspection of credit risk in 2018, the ECB issued a number of recommendations. As a result, Dexia Crédit Local deducted an amount of EUR -208 million from its prudential équity as a supplement for specific provisions, notably EUR -86 million on the exposure to the Chicago Board of Education (CBOE). Dexia Crédit Local will integrate all the conclusions of these inspections when they are finalised.

Risk-weighted assets decreased very slightly during the half-year to EUR 29.8 billion as at 30 June 2019, of which EUR 27.9 billion for credit risk, EUR 0.9 billion for market risk and EUR 1 billion for operational risk.

Taking these elements into account, Dexia Crédit Local's Common Equity Tier 1 ratio stood at 21.5% as at June 30, 2019, compared to 23.2% at the end of 2018. The Total Capital ratio was 22.0%, compared with 23.6% at the end of 2018, a level higher than the minimum required by the European Central Bank for 2019 as part of the Supervisory Review and Evaluation Process (SREP)[2].

B. Evolution of the Dexia Crédit Local's liquidity situation

As a consequence of the sale of DKD and the reduction of the asset portfolio, outstanding funding decreased by EUR -21.4 billion compared to 31 December 2018, to EUR 84.9 billion as at 30 June 2019, despite an increase of EUR +1.8 billion in net cash collateral, linked to the decrease in interest rates. The net amount of cash collateral amounted to EUR 24.5 billion as at 30 June 2019.

The change in the funding mix was significant and was almost entirely due to the reduction in secured funding (EUR -17.3 billion compared to the end of December 2018) due to the deconsolidation of DKD, the outstanding covered bonds of which amounted to EUR 13.6 billion as at 31 December 2018. There was also a reduction in unsecured funding (EUR -4.1 billion compared to the end of December 2018) due in particular to the deconsolidation of DKD (EUR -1.3 billion) and a decrease in State-guaranteed funding (EUR -1.6 billion), bringing the outstanding amount to EUR 63.9 billion at the end of June 2019, representing 76% of total outstanding funding at that date.

During the half-year, Dexia Crédit Local successfully launched various long-term public transactions in euros, US dollars and pounds sterling, raising EUR 5.7 billion, or 80% of the annual long-term funding programme at a competitive funding cost. Short-term funding activity in guaranteed format was also strong, with an average maturity at issuance of 8.1 months.

PRUDENTIAL EQUITY

in millions of EUR	30/06/2018	31/12/2018	30/06/2019
Common Equity Tier 1	7,034	7,012	6,410
Total Capital	7,204	7,134	6,544
Risk-weighted assets	32,539	30,182	29,784
Common Equity Tier 1 ratio	21.6%	23.2%	21.5%
Total Capital ratio	22.1%	23.6%	22.0%

RISK-WEIGHTED ASSETS

in millions of EUR	30/06/2018	31/12/2018	30/06/2019
Credit risk	29,785	28,487	27,912
Market risk	1,754	695	872
Operational risk	1,000	1,000	1,000
TOTAL	**32,539**	**30,182**	**29,784**

(1) Cf. Dexia press releases dated 5 February and 26 July 2018, available at *www.dexia.com*.
(2) Cf. Dexia press release dated 18 February 2019, available at *www.dexia.com*.

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

As at 30 June 2019, Dexia Crédit Local had a liquidity reserve of EUR 16.1 billion, 45% of which is in the form of cash deposits with central banks.

On the same date, Dexia Crédit Local's Liquidity Coverage Ratio (LCR) stood at 252%, compared to 200% as at 31 December 2018. This ratio is also respected at subsidiary level, each exceeding the required minimum of 100%. The Net Stable Funding Ratio (NSFR), estimated on the basis of the latest proposals for amendments to the RRC, would be above the target threshold of 100%, as a result of Dexia Crédit Local's efforts since 2013 to improve its funding profile.

CREDIT RISK

For a methodological description of the credit risk management framework, refer to the Annual Report 2018.

As at 30 June 2019, Dexia Crédit Local's exposure to credit risk was EUR 98.4 billion, compared to EUR 123.2 billion at the end of December 2018. This fall is principally due to the sale of DKD, natural portfolio amortisation and asset sales.

The deconsolidation of DKD is reflected by a fall of exposure by EUR 14.8 billion on Germany, EUR 16.7 billion on the local public sector and to a lesser extent, EUR 1.7 billion on sovereigns. 66% of the assets disposed of were rated AA and 23% AAA.

Exposures are essentially divided between loans and bonds, at EUR 42.7 billion and EUR 48.0 billion respectively.

EXPOSURE BY GEOGRAPHIC REGION

in millions of EUR	31/12/2018 Total	31/12/2018 o/w discontinued operations (DKD)	31/12/2018 o/w continuing operations	30/06/2019
United Kingdom	21,114	53	21,061	21,301
Italy	21,811	837	20,974	21,154
France	22,270	54	22,216	18,791
United States	14,994	152	14,842	12,799
Spain	7,321	28	7,294	6,445
Japan	5,459	0	5,459	5,792
Portugal	4,420	235	4,185	4,390
Canada	1,882	0	1,882	1,724
Belgium	16,714	14,805	1,909	1,133
Germany	888	0	888	953
Central and Eastern Europe(1)	1,933	1,418	515	511
Switzerland	353	0	353	490
South and Central America	345	0	345	336
Luxembourg	48	0	48	218
Southeast Asia	202	0	202	212
Scandinavian countries	218	20	198	135
Greece	78	0	78	74
Netherlands	74	26	49	52
Austria	1,023	1,014	10	7
Other(2)	2,084	267	1,817	1,858
TOTAL	**123,232**	**18,908**	**104,324**	**98,375**

(1) Without Austria and Hungary.
(2) Including supranationals, Austria, Ireland and Hungary.

EXPOSURE BY TYPE OF COUNTERPARTY

in millions of EUR	31/12/2018 Total	31/12/2018 o/w discontinued operations (DKD)	31/12/2018 o/w continuing operations	30/06/2019
Local public sector	65,801	16,663	49,138	47,805
Central governments	26,994	1,666	25,329	23,355
Project finance	10,153	14	10,139	10,060
Financial institutions	10,428	557	9,871	8,663
Corporate	5,719	0	5,718	5,658
Monolines	1,471	0	1,471	1,472
ABS/MBS	2,666	9	2,657	1,363
TOTAL	**123,232**	**18,908**	**104,324**	**98,376**

EXPOSURE BY RATING (INTERNAL RATING SYSTEM)

	31/12/2018 Total	31/12/2018 o/w discontinued operations (DKD)	31/12/2018 o/w continuing operations	30/06/2019
AAA	19.2%	23.0%	18.5%	14.6%
AA	17.0%	66.3%	8.0%	9.0%
A	25.2%	3.4%	29.2%	30.7%
BBB	29.4%	6.6%	33.5%	36.7%
Non Investment Grade	7.9%	0.7%	9.2%	7.3%
D	1.1%	0.0%	1.3%	1.4%
Not Rated	0.3%	0.0%	0.3%	0.3%
TOTAL	**100%**	**100%**	**100%**	**100%**

SECTOR EXPOSURE TO CERTAIN COUNTRIES

in millions of EUR	Total	o/w local public sector	o/w corporate and project finance	o/w financial institutions	o/w ABS/MBS	o/w sovereign exposures	o/w monolines
United Kingdom	21,301	10,177	7,990	1,064	1,307	61	702
Italy	21,154	9,060	311	247	0	11,537	0
France	18,791	8,982	2,455	1,792	0	5,563	0
United States	12,799	7,735	895	1,539	23	1,838	769
Spain	6,445	4,088	1,336	540	32	449	0
Japan	5,792	5,012	0	759	0	21	0
Portugal	4,390	1,375	64	11	0	2,941	0
Germany	1,133	0	114	1,014	0	4	0

Exposures are for the most part concentrated in the European Union (75%) and the United States (13%).

As at 30 June 2019, exposures remained essentially concentrated on the local public sector and sovereigns (72%), considering Dexia Crédit Local's historic activity. The local public sector portfolio posted a fall of 27% principally due to asset disposals. The sovereign portfolio posted a fall of 13% particularly by virtue of the decrease of assets lodged with the Bank of France. Furthermore, exposure to financial institutions was EUR 8.7 billion, principally composed of "repos" and bonds.

The average quality of the Dexia Crédit Local credit portfolio remained high, with 91% of exposures rated investment grade as at 30 June 2019.

Particular attention is drawn to the countries included in the above table in view of the significant amounts of exposure or a situation representing a potential risk. The main evolutions and significant facts for these sectors and countries in the first half-year 2019 are discussed in the following paragraphs.

Dexia Credit Local commitments on sovereigns

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

In Europe, budget tensions between Brussels and Rome continued, limiting the fall of credit spreads for Italy. In addition to the poor development of Italian taxation, the still low growth expected for the country weighs all the more on its credit profile.

Brexit negotiations have not progressed, with still no majority in the British Parliament on an exit plan. With the resignation of Prime Minister Theresa May, and Boris Johnson as the next British Prime Minister, the risk of a hard Brexit has clearly increased.

Economic growth has continued to slow in recent quarters in the euro zone. However, stock markets have risen considerably, driven by a very sharp decline in bond yields, as they feared a continued decline in growth as a result of pressures on world trade. This less favourable situation also led to more accommodating monetary policy expectations, pushing bond rates even lower.

The first half-year was also marked by an increase in tensions between the United States and China.

In addition, in Japan, trade tensions with China weighed on growth.

Finally, Dexia Crédit Local took advantage of favourable market conditions in the United States to sell some of its sovereign exposure to the United States.

Dexia Crédit Local commitments on the local public sector

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

Main points for attention

- Spain

  The Spanish State's support to the regions and municipalities continued through the renewal of several financial support funds: EUR 30 billion was paid to the regions in 2018, particularly by the Autonomous Liquidity Fund (FLA). For 2019, an envelope of EUR 14 billion has already been granted for the first quarter. In return for this aid, State control over regional or local finances is increased.

  Catalonia is one of the main Spanish regions and an important centre of economic attractiveness for Spain, but its financial situation remains tense. It presents negative savings rates, heavy indebtedness and tight liquidity leading to a dependency on short-term funding. As a consequence, it has the benefit of State support. Following the appointment of new governments in Catalonia and in Spain, financial control by the Spanish State has been waived. The region's finances nonetheless remain subject to control within the framework of the FLA. Dexia Crédit Local has a high level of outstanding on this counterparty (EUR 1.8 billion on the region and its entities) but has recorded no payment incident, like the other Spanish regions moreover.
- United States

  The majority of exposures to the local public sector in the United States relate to the States (44%) and to local authorities (28%). Like the American local public market, the Dexia Crédit Local portfolio is of good quality and generally covered by monolines.

  The main risks affecting the sector are medium to long-term risks relating to the increase of pension debts (with a reform capacity of pensions more or less significant depending on the legislative framework of each State) and the possible subordination of bond lenders vis-à-vis the beneficiaries of pension schemes.
  - *Chicago Board of Education (CBOE)*

    The CBOE suffers from financial difficulties due to an extremely high level of debt, the under-funding of its pension funds and the ongoing decline in student registrations. These difficulties are amplified by the delay on the part of the State of Illinois in paying subsidies to the CBOE. As a consequence, the latter increased its proportion of short-term funding, for which conditions of access hardened.

    The Group's exposure to the CBOE was EUR 445 million as at 30 June 2019. Approximately 19% is provisioned. Moreover, approximately 15% of the exposure benefits from monoline cover by Ambac. Despite its weak financial situation, the CBOE continues to honour its commitments and has pre-financed the service of its financial debt until March 2020.

Dexia Crédit Local commitments on project finance and corporates

The project finance and corporate loans portfolio amounted to EUR 15.7 billion as at 30 June 2019, down 1% on the end of 2018. Beyond natural amortisation and certain early redemptions, this portfolio contracted as a result of opportunistic disposals and as a result of exchange rate effects.

This portfolio consists 64% of project finance, the balance being in finance to corporates, such as financing for acquisitions, commercial transactions or corporate bonds.

The portfolio is of good quality: 79% of project finance and 99% of finance to corporates are rated investment grade.

The UK portfolio represents approximately 74% of the project finance (PPP) and corporates (utilities) portfolio. 97% of its exposure is rated investment grade. No significant short-term impact as a result of Brexit is anticipated.

Dexia Crédit Local commitments on ABS

In 2019, Dexia Crédit Local continued the proactive reduction of its ABS portfolio. Under favourable market conditions, in particular the Group disposed of all of its ABS on US student loans. As at 30 June 2019, Dexia Crédit Local's ABS portfolio was EUR 1.4 billion.

The portfolio's quality fell as a result of the disposal of ABS on US student loans. As at 30 June 2019, 91.6% of the portfolio was rated investment grade (against 95.5% at the end of December 2018).

Dexia Crédit Local commitments on monolines

Dexia Crédit Local is indirectly exposed to the quality of the signature of monolines in the form of financial guarantees ensuring the timely payment of the principal and interest due on certain bonds and borrowings. Effective claims against monolines only become due if actual defaults occur in the underlying assets. Dexia Crédit Local's insured bonds benefit from enhanced trading values and, in some cases, capital relief due to the credit enhancements provided.

As at 30 June 2019, the amount of exposures insured by monolines amounted to EUR 13.1 billion, 76% of which were insured by monolines rated investment grade by at least one external rating agency. With the exception of FGIC, all monolines continue to meet their initial commitments.

Dexia Group commitments on financial institutions

Dexia Group commitments on financial institutions amounted to EUR 8.7 billion as at 30 June 2019.

The evolution of the Deutsche Bank group, the situation of which remains weak, continues to be carefully monitored. Against that background, Dexia Crédit Local reduced its exposure by EUR 477 million and is not renewing some long-term repo operations. As at 30 June 2019, exposure was EUR 454 million against EUR 880 million as at 31 December 2018.

Dexia Crédit Local's exposure to the Italian banking system was limited to EUR 247 million as at 30 June 2019. The exposure to banks rated non-investment grade is less than EUR 1 million, and consists of collateralised derivatives.

Impairments on counterparty risk – asset quality

As at 30 June 2019, impaired assets were slightly down by EUR 3 million, at EUR 1.3 billion. Specific provisions amounted to EUR 286 million, down EUR 18 million on 31 December 2018. This fall is explained in particular by:

- the abandonment of an already fully impaired receivable on real estate finance for a hospital in the city of Chicago;
- the settlement of a wind farm project in Texas;
- the amortisation of fully impaired outstanding on a project in the Yemen;
- natural amortisation of other impaired files.

As a consequence, the coverage ratio was 22.5% at the end of June 2019, against 23.9% as at 31 December 2018.

As at 30 June 2019, collective provisions were EUR 327 million, of which EUR 5 million of Stage 1 provision and EUR 322 million of Stage 2 provision. The Stage 2 provision is made up a little more than one half by provisions on a Portuguese sovereign and on Portuguese local authorities following rating downgrades since origin.

The fall of the amount of collective provisions observed over the half-year (EUR -23 million) is associated with:

- the continuation of disposal programmes and the deconsolidation of DKD;
- the improvement of the quality of signature of certain counterparties, generating a move from Stage 2 to Stage 1 over the half-year;
- natural asset amortisation over the half-year.

ASSET QUALITY

in millions of EUR	31/12/2018	30/06/2019
Impaired assets(1)	1,271	1,268
Specific impairments(2)	304	286
Of which		
Stage 3	297	280
POCI	6	6
Coverage ratio(3)	23.9%	22.6%
Collective provisions	345	327
Of which		
Stage 1	5	5
Stage 2	340	322

(1) Outstanding computed according the applicable perimeter defined under IFRS 9 (FV through OCI + Amortised Cost + Off Balance).
(2) Impairments according the portfolio taken into account for the calculation of the outstanding, inclusive the impairments related to POCI.
(3) Specific impairments-to-Impaired assets ratio.

MARKET RISK

For a methodological description of the market risk management framework, refer to the Annual Report 2018 – risk measurement.

Value at Risk

At the end of June 2019, the total consumption in VaR of the trading portfolios was EUR 1.6 million, against EUR 1.7 million at the end of 2018.

Sensitivity of the banking portfolio to the evolution of credit spreads

The portfolio classified at fair value through equity consists of securities and loans and presents sensitivity to a sharply reduced increase of credit spreads. It was EUR -1.8 million as at 30 June 2019 against EUR -2.8 million as at 31 December 2018. Furthermore, the portfolio classified at fair value through profit and loss in view of its "non-SPPI" nature, also consisting of securities and loans, presents sensitivity to an increase of credit spreads of EUR -1.6 million as at 30 June 2019 against EUR -2.3 million as at 31 December 2018.

TRANSFORMATION RISK

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

in millions of EUR	30/06/2019
Sensitivity	-7.9
Limit	+/-80

Framing of the interest rate and exchange risk

For a methodological description of the interest rate and exchange risk management framework, refer to the Annual Report 2018.

The sensitivity of long-term ALM was EUR -7.9 million as at 30 June 2019 against EUR -14.1 million as at 31 December 2018.

It is in line with ALM strategy which aims to minimise the volatility of the net interest margin.

Framing of the liquidity risk

Dexia Crédit Local measures and informs the various supervisors on a monthly basis of the Liquidity Coverage Ratio (LCR) at the level of the Group and its main banking subsidiaries. This ratio aims to measure the cover of the liquidity requirement at 30 days in a stressed environment by a volume of liquid assets.

As at 30 June 2019, Dexia Crédit Local's LCR was 252%, against 200% as at 31 December 2018, in line with those requirements. This ratio is also respected at subsidiary level, each exceeding the required minimum of 100%.

In addition, the European Central Bank (ECB) informed Dexia Crédit Local that as from 1 January 2019, the specific supervisory approach would not be renewed. In terms of liquidity, Dexia Crédit Local must therefore comply with all regulatory requirements applicable to banking institutions supervised by the ECB at each level of the consolidation.

The Net Stable Funding Ratio (NSFR), estimated on the basis of the latest CRR amendment proposals, would be above the target threshold of 100%, a result of Dexia Crédit Local's efforts since 2013 to improve its funding profile.

OPERATIONAL RISK AND IT SYSTEMS SECURITY

Operational risk management is identified as one of the pillars of Dexia Crédit Local's strategy, within the context of its orderly resolution.

Only one operational incident recorded in the first half-year 2019 had a financial impact, resulting in a total loss of EUR 2,700.

In 2019 Dexia Crédit Local continued to adapt its structure and its operational processes to its mandate of orderly resolution. This phase of resolution is by nature conducive to the development of operational risks, particularly through factors such as the departure of key people, a possible demotivation of staff members or a change of treatment processes.

In particular, projects to outsource certain activities may represent a source of operational risk during the preparation and implementation phases but should in the medium term ensure the operational continuity of the bank and limit operational risks associated with systems, processes and people.

During the phase of implementing the Horizon and Ithaque projects with Cognizant, outsourcing risks are monitored by the Dexia Crédit Local Risk Management activity line in order to ensure the proper implementation of operations and risk governance via joint Dexia Crédit Local / Cognizant committees. A specific team was set up to check the provision and quality of the services provided by Cognizant, whilst the effective supervision of outsourced activities is in the hands of Internal Control in Dexia Crédit Local and Cognizant entities.

A quarterly report is made for monitoring operational risks associated with strategic projects and ensures that corrective actions are taken to reduce the most significant risks.

Finally, psychosocial risks are monitored carefully by Dexia Crédit Local, accompanied by prevention and assistance actions.

STRESS TESTS

Dexia Crédit Local performs many scenario analysis exercises and stress tests in a transversal and integrated approach to the Group's risk management process. They are aimed at identifying possible vulnerabilities and in an adverse shock situation at simultaneously estimating any additional losses, a possible increase of risk-weighted assets, additional liquidity or capital requirements.

These exercises, used for the purposes of internal guidance, also help to ensure the observance of regulatory requirements in that regard, particularly those relating to stress tests, Pillar II and the ICAAP and ILAAP processes defined by the European Central Bank and the EBA guidelines[1].

Indeed, a complete programme of stress tests in accordance with the appropriate regulations is thus implemented to ensure a coherent articulation between the different types of stress (including market, Pillar 1 credit, liquidity and the stresses required in the Pillar 2 framework). The main stress tests performed during the first half-year 2019 related in particular to:

- Specific credit stress tests for the main asset classes. In particular, within the framework of Basel Pillar 1, the credit exposures covered by internal rating systems were subjected to annual sensitivity tests, of macroeconomic, historic and expert scenarios. The results of the stress tests are contrasted with the results of the risk and capital approach on credit risk;
- Market stress tests (highlighting potential events outside the probability of VaR measurement techniques). They have been divided into tests of unique risk factors, tests of historic scenarios and tests of hypothetical scenarios;
- Stress tests associated with the structural interest rate risk enabling the potential impact on Dexia Crédit Local equity of a sudden and unexpected fluctuation of interest rates to be measured, responding to regulatory expectations;
- Liquidity stress tests enabling additional liquidity requirements to be estimated in exceptional but plausible scenarios against a certain time horizon.
- Operational risk stress tests based on the internal history of losses and scenario analyses.
- A series of specific stress tests (sensitivity analysis, scenario-by-scenario analysis) relying on macroeconomic scenarios simulating crisis situations and on expert scenarios. In association with the Pillar 2 requirements and the requirements of capital adequacy measures, these stress tests are performed in the same operational setting as that of the ICAAP and ILAAP processes.

(1) "Common procedures and methodology for Supervisory Review and Evaluation Process (SREP Guidelines)" and "EBA guidelines on institutions' stress testing".

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

Crisis simulations for the purposes of ICAAP and ILAAP are performed twice per annum and are the object of internal validation and verification. In accordance with regulatory requirements, the complete annual exercise performed at the end of 2018 was forwarded to the ECB. These tests form an integral part of the Risk Appetite Framework (RAF) and are incorporated in the definition and review of global strategy. The link between risk tolerance, adaptations of the strategic resolution plan and ICAAP and ILAAP stress tests is guaranteed by the specific capital consumption indicators which form a part of the RAF.

RATINGS

RATINGS AS AT 15 JULY 2019

	Long term	Outlook	Short term
DEXIA CRÉDIT LOCAL			
Fitch	BBB+	Stable	F1
Moody's	Baa3	Stable	P-3
Moody's – Counterparty Risk (CR) Assessment	*Baa3(cr)*		*P-3(cr)*
Standard & Poor's	BBB	Stable	A-2
DEXIA CRÉDIT LOCAL (GUARANTEED DEBT)			
Fitch	AA-	-	F1+
Moody's	Aa3	Stable	P-1
Standard & Poor's	AA	-	A-1+

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

ASSETS *in millions of EUR*	30/06/2018	31/12/2018	30/06/2019
Cash and central banks	9,881	9,269	6,752
Financial assets at fair value through profit or loss	15,468	13,420	15,243
Hedging derivatives	4,627	1,263	1,311
Financial assets at fair value through other comprehensive income	7,778	4,860	2,625
Financial assets at amortised cost - Debt securities	48,470	45,128	45,182
Financial assets at amortised cost - Interbank loans and advances(1)	27,157	23,654	26,577
Financial assets at amortised cost - Customer loans and advances(1)	52,737	35,143	34,636
Fair value revaluation of portfolio hedges	1,078	748	806
Current tax assets	26	37	30
Deferred tax assets	25	20	20
Accruals and other assets	504	388	376
Non current assets held for sale	0	24,387	0
Tangible fixed assets	5	2	53
Intangible assets	31	37	36
TOTAL ASSETS	**167,787**	**158,356**	**133,647**

LIABILITIES *in millions of EUR*	30/06/2018	31/12/2018	30/06/2019
Financial liabilities at fair value through profit or loss(2)	13,116	11,872	14,790
Hedging derivatives(2)	25,487	21,151	21,944
Interbank borrowings and deposits(3)	28,984	20,930	19,900
Customer borrowings and deposits(3)	6,471	4,873	3,004
Debt securities	86,259	67,959	66,519
Fair value revaluation of portfolio hedges	18	13	12
Current tax liabilities	0	3	57
Deferred tax liabilities	24	24	26
Accruals and other liabilities	418	400	748
Liabilities included in disposal groups held for sale	0	24,055	0
Provisions	230	226	181
Subordinated debt	145	126	19
TOTAL LIABILITIES	**161,152**	**151,632**	**127,200**
Equity	**6,635**	**6,724**	**6,447**
Equity, Group share	6,335	6,444	6,191
Capital stock and related reserves	2,465	2,465	2,465
Consolidated reserves	5,030	5,041	4,785
Gains and losses directly recognised in equity	(913)	(806)	(586)
Net result of the period	(247)	(256)	(473)
Minority interests	300	280	256
TOTAL LIABILITIES AND EQUITY	**167,787**	**158,356**	**133,647**

(1) Since 31/12/2018, the definition of credit institutions in the Financial Statements and in Finrep Regulatory Statements has been harmonized. Certain counterparties have been reclassified from "Interbank loans and advances" to "Customer loans and advances". As a result, the figures as at 30/06/2018 have been restated: an amount of EUR 4,829 million has been reclassified from "FInancial assets at amortised cost - Interbank loans and advances" to "Financial assets at amortised cost - Customer loans and advances".

(2) Amounts as at 30 June 2018 were restated.

(3) Since 31/12/2018, the definition of credit institutions in the Financial Statements and in Finrep Regulatory Statements has been harmonized. Certain counterparties have been reclassified from "Interbank borrowings and deposits" to "Customer borrowings and deposits". As a result, the figures as at 30/06/2018 have been restated: an amount of EUR 2,991 million has been reclassified from "Interbank borrowings and deposits" to "Customer borrowings and deposits".

The notes on pages 24 to 42 are an integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

in millions of EUR	30/06/2018[1] restated	30/06/2019
Interest income	3,954	3,611
Interest expense	(3,902)	(3,603)
Commission income	4	6
Commission expense	(7)	(6)
Net gains (losses) on financial instruments at fair value through profit or loss	(217)	(113)
Net gains (losses) on financial instruments measured at fair value through other comprehensive income	61	(77)
Net gains (losses) arising on derecognition of financial assets measured at amortised cost[2]	(10)	(17)
Other income	18	1
Other expenses	(1)	(5)
NET BANKING INCOME	**(100)**	**(203)**
Operating expenses	(210)	(183)
Depreciation, amortisation and impairment of tangible fixed assets and intangible assets	(9)	(13)
GROSS OPERATING INCOME	**(319)**	**(399)**
Cost of credit risk	49	23
OPERATING INCOME	**(270)**	**(376)**
Net gains (losses) on other assets	8	0
NET RESULT BEFORE TAX	**(262)**	**(376)**
Income tax	(6)	(5)
Result from discontinued operations, net of tax	16	(117)
NET INCOME	**(252)**	**(498)**
Minority interests	(5)	(25)
NET INCOME, GROUP SHARE	**(247)**	**(473)**
EARNINGS PER SHARE, GROUP SHARE (IN EUR)		
Basic	(0.88)	(1.69)
- from continuing operations	*(0.94)*	*(1.27)*
- from discontinued operations	*0.06*	*(0.42)*
Diluted	(0.88)	(1.69)
- from continuing operations	*(0.94)*	*(1.27)*
- from discontinued operations	*0.06*	*(0.42)*

(1) Following the classification of Dexia Kommunalbank Deutschland as discontinued operation , as required by the IFRS 5 standard, the consolidated income statement 2018 was revised to present DKD's results on the separate line *Result from discontinued operations, net of tax*.

(2) 30/06/2019 : this loss is principally composed of EUR -31 million from the sale of american financial assets following the restructuration of DCL NY (see also the note *Simplification of the Group's structure and impacts on the consolidated financial statements*), of EUR +17 million from the sale of nearly all european ABS, mainly related to restructured assets by European banks in the framework of the Brexit and for EUR -8 million following the reduction of exposure to the Italian sovereign.

The notes on pages 24 to 42 are an integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	30/06/2018			30/06/2019		
in millions of EUR	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
NET INCOME			(252)			(498)
Elements reclassified or likely to be subsequently reclassified in net income						
- Cumulative translation adjustments	17		17	3		3
- Changes in fair value of debt instruments at fair value through other comprehensive income	53	(1)	52	70		70
- Revaluation of hedging derivatives	26	(2)	24	(86)	1	(85)
- Other comprehensive income from disposal groups held for sale	(48)	1	(47)	238		238
Elements that will never be reclassified or likely to be subsequently reclassified in net income						
- Actuarial gains and losses on defined benefit plans				(2)		(2)
- Own credit risk revaluation directly recognised in equity for the financial liabilities designated at fair value through profit or loss	(6)	1	(5)	(1)	(1)	(2)
- Transfer within consolidated reserves of own credit risk amounts related to financial liabilities designated at fair value through profit or loss, upon their derecognition	(13)		(13)	1		1
- Changes in fair value of equity instruments at fair value through other comprehensive income				(1)		(1)
TOTAL UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY	29	(1)	28	222	0	222
NET RESULT AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY			(224)			(276)
of which, Group share			(200)			(253)
of which, Minority interests			(24)			(23)

The notes on pages 24 to 42 are an integral part of these condensed consolidated financial statements.

– CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2019 –

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Capital stock and related reserves				Consolidated reserves	Gains and losses directly recognised in equity								Net income, Group share	Equity, Group share	Minority interests			Equity
in millions of EUR	Capital stock	Related reserves	Treasury shares	Total		Change in fair value of debt instruments measured at fair value through other comprehensive income, net of taxes	Change in fair value of equity instruments measured at fair value through other comprehensive income, net of taxes	Change in fair value of cash flow hedges, net of taxes	Change in unrealised or deferred gains and losses related to non current assets held for sale	Actuarial gains and losses on defined benefit plans	Change in fair value of financial liabilities designated at fair value through profit or loss attributable to own credit risk	Translation adjustments	Total			Capital and reserves	Gains and losses directly recognised in equity	Total	
AS AT 01/01/2018	279	2,186	0	2,465	5,016	(247)	(1)	(922)	29	(4)	75	110	(960)		6,521	356	20	376	6,897
Movements during the period																			
- Translation adjustments												17	17		17				17
- Own credit risk reclassified upon derecognition from accumulated other comprehensive income to equity for the period					13						(13)		(13)		0				0
- Changes in fair value of financial assets measured at fair value through other comprehensive income, through equity						163							163		163				163
- Amounts reclassified to profit or loss following the impairment or the disposal of debt instruments measured at fair value through other comprehensive income						(111)							(111)		(111)				(111)
- Gains and losses of the period of cash flow hedge derivatives, through equity								42					42		42				42
- Gains and losses on cash flow hedge derivatives reclassified in profit or loss								(17)					(17)		(17)				(17)
- Changes in fair value of financial liabilities designated at fair value through profit or loss attributable to own credit risk (OCR)											(5)		(5)		(5)				(5)
Subtotal of changes in gains and losses directly recognized in equity					13	52		25			(18)	17	76		89				89
- Net income for the period														(247)	(247)	(5)		(5)	(252)
- Impact of the sale of Dexia Israel									(29)				(29)		(29)	(51)	(19)	(70)	(99)
- Other					1								0		1	(1)		(1)	0
AS AT 30/06/2018	279	2,186	0	2,465	5,030	(195)	(1)	(897)	0	(4)	57	127	(913)	(247)	6,335	299	1	300	6,635
AS AT 31/12/2018	279	2,186	0	2,465	5,041	(170)	0	(577)	(238)	(3)	47	135	(806)	(256)	6,444	279	1	280	6,724
Movements during the period																			
- Appropriation of net income 2018					(256)									256	0				0
Subtotal of shareholders related movements					(256)									256	0				0
- Translation adjustments												3	3		3				3
- Changes in fair value of financial assets measured at fair value through other comprehensive income, through equity						32	(1)		3				34		34		(1)	(1)	33
- Amounts reclassified to profit or loss following the impairment or the disposal of debt instruments measured at fair value through other comprehensive income						38							38		38				38
- Gains and losses of the period of cash flow hedge derivatives, through equity								(68)					(68)		(68)		3	3	(65)
- Gains and losses on cash flow hedge derivatives reclassified in profit or loss								(20)					(20)		(20)				(20)
- Changes in fair value of financial liabilities designated at fair value through profit or loss attributable to own credit risk (OCR)											(1)		(1)		(1)				(1)
- Changes in actuarial gains and losses on defined benefit plans										(1)			(1)		(1)		(1)	(1)	(2)
Subtotal of changes in gains and losses directly recognized in equity						70	(1)	(88)	3	(1)	(1)	3	(15)		(15)		1	1	(14)
- Net income for the period														(473)	(473)	(25)		(25)	(498)
- Impact of the sale of Dexia Kommunalbank Deutschland									235				235		235			0	235
- Other											1							0	0
AS AT 30/06/2019	279	2,186	0	2,465	4,785	(100)	(1)	(665)	0	(4)	47	138	(586)	(473)	6,191	254	2	256	6,447

The notes on pages 24 to 42 are an integral part of these condensed consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

in millions of EUR	30/06/2018	30/06/2019
Cash flow from operating activities		
Net income after income taxes	(252)	(498)
Adjustment for:		
- Depreciation , amortization and other impairment	8	16
- Impairment losses (reversal impairment losses) on bonds,loans and other assets	(68)	(38)
- Net (gains) or losses on investments	(24)	(10)
- Net increases (net decreases) in provisions	(4)	5
- Unrealised (gains) or losses on financial instruments	216	135
- Deferred taxes	5	2
Changes in operating assets and liabilities	(789)	(2,698)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**(908)**	**(3,086)**
Cash flow from investing activities		
Purchase of fixed assets	(19)	(9)
Sale of fixed assets		13
Sales of unconsolidated equity shares	14	2
Sales of subsidiaries and of business units(1)	(632)	343
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**(637)**	**349**
Cash flow from financing activities		
Reimbursement of subordinated debts	(24)	(106)
Cash outflow linked with leasing debts		(5)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	**(24)**	**(111)**
NET CASH PROVIDED	**(1,569)**	**(2,848)**
Cash and cash equivalents at the beginning of the period	**11,832**	**10,614**
Cash flow from operating activities	(908)	(3,086)
Cash flow from investing activities	(637)	349
Cash flow from financing activities	(24)	(111)
Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents	29	5
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**10,292**	**7,771**
Additional information		
Income tax paid	(11)	1
Dividends received	2	9
Interest received	4,848	3,738
Interest paid	(4,730)	(3,772)

(1) 30/06/2018 : sale of Dexia Israel and 30/06/2019 : sale of Dexia Kommunalbank Deutschland.

The notes on pages 24 to 42 are an integral part of these condensed consolidated financial statements.

NOTE I. ACCOUNTING PRINCIPLES AND RULES GOVERNING THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – CHANGES IN SCOPE OF CONSOLIDATION – SIGNIFICANT ITEMS INCLUDED IN THE STATEMENT OF INCOME – SIMPLIFICATION OF THE GROUP'S STRUCTURE AND IMPACTS ON THE CONSOLIDATED FINANCIAL STATEMENTS – PRESENTATION OF THE EFFECT OF THE STANDARD IFRS 16 "LEASES" ON THE BALANCE AS AT 1ST JANUARY 2019

ACCOUNTING PRINCIPLES AND RULES GOVERNING THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

General information

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

These condensed consolidated financial statements were authorised for issue by the Board of Directors on 9 September 2019.

Accounting policies

The principal accounting policies adopted in the preparation of these condensed 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. Basis of accounting

Dexia Crédit Local's condensed consolidated financial statements have been prepared in accordance with IFRS endorsed by the European Commission up to 30 June 2019 and applicable as from 1 January 2019.

The interim financial statements have been prepared in accordance with the same accounting policies and methods of computation as those used in the preparation of the 2018 annual financial statements, except for the elements stated in the section 2. "Changes in accounting policies since the previous annual publication that may impact Dexia Crédit Local Group".

In particular, interim financial statements have been prepared and presented in accordance with IAS 34 "Interim Financial Reporting" which provides for condensed set of financial statements and measurements for interim reporting purposes made on a financial year-to-date basis.

The condensed consolidated financial statements of Dexia Crédit Local as at 30 June 2019 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions underlying the business plan for the resolution of the Dexia Group, decided upon by the European Commission in December 2012. They are listed below:

The condensed consolidated financial statements of Dexia Crédit Local as at 30 June 2019 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions underlying the business plan for the resolution of the Dexia Group, decided upon by the European Commission in December 2012. They are listed below:

- The macroeconomic hypotheses underlying the business plan are revised as part of the half-yearly reviews of the overall plan. The update made on the basis of market data observable as at 31 December 2018 and validated by the Board of Directors of Dexia on 23 April 2019 integrates the regulatory developments known to date, including the final version of the CRD IV Directive. It also takes account of the extremely positive impact on Dexia Crédit Local's regulatory capital of the first-time application of the IFRS 9 accounting standard as from 1 January 2018 and of the non-renewal, as from 1 January 2019, of the specific approach implemented by the European Central Bank for the supervision of the Dexia Group[1]. This update does not integrate all of the results of on-site inspections (OSI) by the European Central Bank, in particular the inspections on credit risk, IT risk and operational risk and outsourced activities, on which the definitive reports have not yet been received by Dexia.

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

- The ongoing resolution assumes that Dexia Crédit Local retains a sound funding capacity, relying in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on the Group's capacity to raise secured funding.
- The latest update of the business plan takes account of a revision of the funding plan relying on the last observable market conditions. In addition, since the end of 2012, Dexia Crédit Local has considerably reduced its funding requirement, diversified its access to different funding sources and taken advantage of favourable market conditions to extend the maturity of its liabilities, with a view to the prudent management of its liquidity. In particular, this enables to maintain a level of liquidity reserves which is deemed appropriate considering the restriction of access to European Central Bank funding announced on 21 July 2017[1].
- The business plan assumes the maintenance of the banking licences of Dexia and Dexia Crédit Local and the maintenance of the Dexia Crédit Local rating at a level of Investment Grade.

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

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

- In particular, this plan is likely to be impacted by new developments in accounting and prudential rules.
- Dexia and Dexia Crédit Local are also very sensitive to the evolution of the macroeconomic environment and to market parameters, particularly exchange rates, interest rates and credit spreads. An unfavorable evolution of these parameters over time could weigh on Dexia Crédit Local's liquidity and its solvency position, for instance by increasing the amount of cash collateral paid by Dexia Crédit Local to its derivatives counterparties or an impact on the valuation of financial assets and liabilities and OTC derivatives, fluctuations of which are booked in the income statement and are liable to result in a fluctuation of the level of the regulatory capital. In particular, considering decisions taken by the Board of Directors of Dexia in relation to the implementation of two planned asset sales for a total amount of approximately EUR 18 billion, Dexia Crédit Local is exposed to the evolution of macroeconomic conditions and market parameters on these assets until their effective disposal.
- Discussions are ongoing between the European Commission and the Belgian and French States on the conditions of the renewal of the State guarantee as from 1 January 2022[2].
- Finally, Dexia Crédit Local is exposed to certain operational risks, specific to the resolution environment in which it operates.

In preparing the condensed 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 judgment. While management believes that it has considered all available information when making these assumptions, actual results may differ from such estimates and the differences may have a material impact on the financial statements.

Judgements are made principally in the following areas:

- classification of financial instruments into the appropriate category Amortised Cost, Fair Value Through Other Comprehensive Income, Fair value Through Profit and Loss and Fair Value Option for measurement purposes based on the assessment of the Dexia Crédit Local's business model for managing financial instruments and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding (SPPI) (IFRS 9);
- 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;
- the use of valuation models when determining the fair value for financial instruments measured at fair value;
- determination on whether Dexia Crédit Local controls the investee, including structured entities (IFRS 10);
- identification of non-current assets and disposal groups held for sale and discontinued operations (IFRS 5);
- identification of the conditions allowing the application of hedge accounting;

(1) On 21 July 2017 the European Central Bank announced the end of access to the Eurosystem for wind-down entities as from 31 December 2021.
(2) Cf. Press Release issued by Dexia on 26 February 2019, available at *www.dexia.com*.

- existence of a present obligation with probable outflows in the context of litigations;
- impairment determination based on expected credit loss (ECL) approach: determination of criteria for significant increase in credit risk, choice of appropriate models and assumptions for the measurement of ECL (IFRS 9);
- identification of a lease contract, assessment of the reasonable certainty of exercising or not exercising any extension or early termination options of a lease, classification of leases (as a lessor) (see 2.5).

Estimates are principally made in the following areas:

- determination of expected credit losses (ECL) to be recognized for impairment of financial assets under IFRS 9: establishment of the number and relative weightings of forward-looking scenarios and determination of the forward looking information relevant to each scenario, determination of Probability of Default (PD) and Loss Given Default (LGD);
- determination of fair value less costs to sell for non-current assets and disposal groups held for sale;
- measurement of hedge effectiveness in hedging relationships;
- determination of the market value correction to adjust for market value and model uncertainty;
- determination of the useful life and the residual value of property, plant and equipment, and intangible assets;
- actuarial assumptions related to the measurement of employee benefits obligations and plan assets;
- estimate of future taxable profit for the recognition and measurement of deferred tax assets;
- determination of the value of right-of-use assets and lease liabilities of lease contract: determination of the lease period, determination of the discount rate to assess the present value of lease payments, determination of any impairment of the right-of-use asset… (See 2.5);
- determination of the uncertainty over income tax treatments and other provisions to cover the risk of losses and expenses.

In the context of the reform initiated by the Financial Stability Board on the replacement of IBOR Interest benchmarks by alternative benchmark rates, Dexia Crédit Local considers that, under the current market conditions, the IBOR reform does not affect as of 30 June 2019 the existing hedging relationships documented under IAS 39[1].

Dexia Crédit Local also considers that the possibility of the transfer of its post-Brexit derivatives clearing activities to the European Union zone has no impact on its existing hedging relationships for the period ended 30 June 2019.

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

2. Changes in accounting policies since the previous annual publication that may impact Dexia Crédit Local Group

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

- The **new IFRS 16 "Leases"** standard, in replacement of IAS 17 standard and related interpretations, sets out principles for the identification and treatment of lease arrangements in the financial statements of both lessees and lessors.

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

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

The updated accounting policies to take into account IFRS 16 for leases as applied from 1st January, 2019 are presented in Section 2.5.

(1) IASB continues its research project on the IBOR (Interbank Offered Rate) reform in order to provide clarifications for accounting impacts of the reform. A draft amendment "Interest Rate Benchmark Reform" to standards related to financial Instruments IFRS 9 and IAS 39 was published in May 2019 and aim to address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate.

First time application principles, options and exemptions retained

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

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

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

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

- Regarding the lease liability, on initial application Dexia Crédit Local measures it at the present value of remaining lease payments, discounted for each contract using incremental borrowing rate at the transition date. This rate reflects the average term weighted by the lease payment flows (duration) of the lease contract and is based on the remaining term of the contract.
  In order to determine the lease term, Dexia Crédit Local considers the non-cancellable period of the contract considering, if applicable, by renewal and termination options, if Dexia Crédit Local is reasonably certain to use an option. In accordance with the conclusion of the ANC (Autorité des Normes Comptables, Authority for Accounting Standards) on the leases with the term 3-6-9, Dexia Crédit Local considers that its contracts are enforceable for 9 years[1].
- Regarding the right-of-use asset, Dexia Crédit Local decided to measure it at the date of first application at the amount equal to the lease liability, determined at the transition date, adjusted by the amount of any prepaid or accrued lease payments.

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

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

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

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

First time application impacts

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

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

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

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

- **Amendment to IAS 19** "Plan Amendment, Curtailment or Settlement". This amendment has no significant impact on Dexia Crédit Local's financial statements due to limited impact of defined benefit plans at Dexia Crédit Local's group level.
- **IFRIC 23** "Uncertainty over Income Tax Treatments", which clarifies the application of IAS 12 "Income Taxes" regarding accounting and valuation, where there is uncertainty as to the treatment of

(1) A request for clarification has been sent to IFRS IC in 2019 regarding the lease term, the response on which could impact the approaches adopted in particular regarding 3-6-9 contracts in France.

income tax. This interpretation has no significant impact on Dexia Crédit Local’s financial statements.

- **Annual Improvements to IFRS Standards - 2015–2017 cycle** which are a collection of amendments to existing IFRS standards. These amendments do not have a material impact on Dexia Crédit Local’s financial statements as they are related to minor adjustments of some IFRS standards.
- **Amendments to IAS 28** “Long-term interests in Associates and Joint Ventures”. This amendment has no impact on Dexia Crédit Local’s financial statements as Dexia Crédit Local has no investments in associates or joint ventures.

2.2. IASB texts and IFRIC interpretations endorsed by the European Commission during the current year but not yet applicable as from 1 January 2019

None

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

None

2.4. New standard IFRS 17 “Insurance Contracts”

This standard issued by IASB in May 2017 in replacement of the current IFRS 4 “Insurance Contracts” standard, is effective as from 1 January 2021 and will have no impact on the financial statements of Dexia Crédit Local as Dexia Crédit Local has no insurance contracts within the scope of the standard.

2.5. Update to significant accounting policies disclosed in Note 1.1. “Accounting policies and valuation methods” to the 2018 annual financial statements

The adoption of IFRS 16 “Leases” resulted in changes to Dexia Crédit Local’s accounting policies applicable from 1 January 2019. Accounting policies set out below replace those in the note 1.1.18. “Leases” in the Dexia Crédit Local consolidated annual financial statements as at 31 December 2018.

As permitted by the transition requirements of IFRS 16 (simplified retrospective approach), Dexia Crédit Local does not restate the comparative period information. The accounting policies as set out in the note 1 of the Dexia Crédit Local consolidated annual financial statements as at 31 December 2018 apply to comparative periods.

1.1.18. LEASES

As from 1 January 2019, Dexia Crédit Local applies the new IFRS 16 “Leases” standard to its lease and sublease contracts.

As permitted by the transition requirements of IFRS 16, Dexia Crédit Local applies the new standard to contracts that had been previously identified as leases under IAS 17 standard. For each contract entered into or amended as from 1 January 2019, Dexia Crédit Local assesses whether it is a lease or contains a lease component based on the definition of IFRS 16, which implies, on the one hand, the identification of an asset and, on the other hand, the control of the use of an identified asset:

- the existence of an identified asset will depend on the absence, for the lessor, of substantive substitution rights for the leased asset;
- control of the use of an identified asset throughout the period of use is conveyed where the customer has both the right to obtain substantially all the economic benefits from that use and the right to direct the asset’s use.

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

1.1.18.1. Dexia Crédit Local is the lessee

Dexia Crédit Local grants leases principally for the rental of equipment or real estate.

A lease, as defined by IFRS 16 “Leases” is recognised on Dexia Crédit Local’s balance sheet as a right-of-use asset representing the right to use the underlying asset during the term of the contract and a lease liability representing the obligation to make lease payments.

Dexia Crédit Local has elected not to recognise a right-of-use asset and a lease liability for lease contracts with the term of less than one year (including renewal options) and to contracts of assets with a low unit value when new (Dexia Crédit Local applies the exemption threshold of EUR 5,000). Lease payments in respect of these contracts are recognised in the income statement as an expense on a straight-line basis over the lease term.

Measurement of the right-of-use asset

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

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

Measurement of the lease liability

The lease liability is initially measured at the present value of the lease payments discounted over the lease term.

Lease payments included in the measurement of the lease liability comprise fixed lease payments, variable lease payments that depend on an index or a rate and, if applicable, amounts expected to be payable by the lessee under residual value guarantees, for purchase options or payments of penalties for terminating the lease.

In order to determine the lease term, Dexia Crédit Local considers the non-cancellable period of the contract considering, if applicable, any renewal and termination options, if Dexia Crédit Local is reasonably certain to use an option. In order to assess whether it is reasonably certain to exercise or not to exercise such options, Dexia Crédit Local uses its judgement and considers all relevant facts and circumstances that create an economic incentive for Dexia Crédit Local to exercise or not to exercise these options.

The discount rate is the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. Generally, Dexia Crédit Local uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently measured at amortised cost using the effective interest rate method: it is increased by the interest expense on the lease liability and reduced by lease payments made.

The amount of the lease liability may be adjusted later if the lease contract is amended, the lease period is re-estimated, or to account for contractual changes in the rental payments related to the application of indices or rates.

Dexia Crédit Local presents the right-of-use assets under "Tangible fixed assets" within the same line item as that within which the corresponding underlying assets would be presented if they were owned. Lease liabilities are presented within "Accruals and other liabilities".

In the income statement, the depreciation charge for the right-of-use asset is presented under "Depreciation, amortisation and impairment of tangible fixed assets and intangible assets", separately from the interest expense on lease liabilities which is presented under "Interest expense".

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

1.1.18.2. Dexia Crédit Local is the lessor

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

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

Revenue from operating leases is recognised in the income statement on a straight-line basis over the lease term. The underlying asset is accounted for in accordance with the accounting policies applicable to this type of asset. For finance leases, Dexia Crédit Local recognises "leases receivable" at an amount equal to the net investment in the lease, which can be different from the present value of minimum lease payments. The interest rate implicit in the lease contract acts as the discount rate. Interest income is recognised over the term of the lease using the interest rate implicit in the lease.

3. Changes in presentation of condensed consolidated financial statements of Dexia Crédit Local

The condensed consolidated financial statements of Dexia Crédit Local have been prepared in accordance with the ANC (Autorité des Normes Comptables, Authority for Accounting Standards) presentation. As at 30 June 2019, they are compliant with ANC Recommendation 2017-02 issued on 2 June 2017 "on the presentation of the consolidated financial statements of banks prepared in accordance with International Financial Reporting Standards" which cancels and replaces the Recommendation 2013-04 issued on 7 November 2013.

As a result of the application of IFRS 16, the main changes in the financial statements are:

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

Following IFRS IC position (IFRIC Update June 2019), Dexia Crédit Local has reclassified debts related to uncertain tax positions from the line "Provisions" to the "Current Tax Liabilities" line.

In addition, in order to harmonise the definition of "credit institutions" in the financial statements and FINREP regulatory statements, some counterparties have been reclassified from "Interbank loans and advances" and "Interbank borrowings and deposits" to "Customer loans and advances" and "Customer borrowings and deposits" respectively.

CHANGES IN SCOPE OF CONSOLIDATION

30 June 2018

On March 17, 2018, Dexia reached an agreement with qualified investors concerning an off-market transaction concerning the sale of all its shares in Dexia Israel, representing 58.89% of the capital. The sale was agreed at a price of NIS 674 per share, for a total amount of EUR 80 million adjusted by transaction's costs.

Dexia therefore deconsolidated the company on January 1, 2018, and recorded in its consolidated financial statements a gain of EUR 8 million calculated on the basis of the financial statements prepared by Dexia Israel on January 1, 2018 after adoption of IFRS9.

30 June 2019

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

Dexia Kommunalbank Deutschland was presented as discontinued operation in the consolidated financial statements since last quarter 2018.

This transaction accounts for a reduction of about EUR 24 billion of the balance sheet and for an increase of other comprehensive income of EUR 235 million. According to the standard IFRS 5, the net capital loss resulting from the sale of EUR -117 million was recorded in *Result from discontinued operations, net of tax*. This amount includes the net result on the disposal as well as the net result of DKD as at 30 June 2019 (EUR -9.4 million). Dexia Crédit Local has also terminated, with effect as of the closing date of the sale, the Letters of Support it had issued to DKD.

SIGNIFICANT ITEMS INCLUDED IN THE STATEMENT OF INCOME

The net result group share amounted to EUR -473 million as at 30 June 2019 against EUR -247 milllion as at 30 June 2018.

Net banking income is negative, at EUR -203 million (EUR -100 million as at 30 June 2018).

Net gains (losses) on financial instruments at fair value through profit or loss, at EUR -113 million (EUR -217 million as at 30 June 2018) included for EUR -113 million accounting volatility elements depending of the evolution of the market parameters which directly impact the value of certain elements (derivatives valued on the base of an OIS curve, calculation of the Credit Value Adjustment, Debit Value Adjustment and Funding Value Adjustment). As at 30 June 2018, this amount was EUR -217 million.

Net gains (losses) on financial instruments measured at fair value through other comprehensive income amounted to EUR -77 million (EUR +61 million as at 30 June 2018). These results were mainly explained by the disposals realised in line with the proactive strategy of reducing the balance sheet. We noticed, among others, the sale of EUR 432 million Cedulas with a loss of EUR -19 million. Moreover, assets booked in the DCL New York branch were disposed to reduce the operational risk highlighted during the analysis of their transfer to headquarters. The second quarter 2019 was marked by the sale of a student loans portfolio of EUR 755 million with a loss of EUR -37 million and of a portfolio of bonds linked to the public sector of EUR 450 million with a loss of EUR -15 million.

The *Net gains (losses) arising from derecognition of financial assets measured at amortised cost* at EUR -17 million (EUR -10 million as at 30 June 2018) are also driven by the disposal of New York branch's assets: the sale of a bond portfolio of EUR 1.1 billion (of which EUR 341 million student loans) generated a loss of EUR -31 million, attributable for EUR - 19 million to the sale of student loans.

The *Net other results*, at EUR -4 million resulted from the net provision for litigations.

Costs amounted to EUR -196 million (EUR -219 million as at 30 June 2018).

As at 30 June 2019, regulatory taxes and contributions amounted to EUR -73 million (EUR - 100 million as at 30 June 2018), accounted for in *Operating expenses* for EUR -61 million (including Dexia Crediop's contribution to the Italian national resolution fund for EUR -2 million) and for EUR -12 million in *Result from discontinued operations, net of tax*, for Dexia Kommunalbank Deutschland (DKD)'s contribution. *Operating expenses* included also an EUR – 11 million restructuration provision for the transformation of the American branch DCL New York.

The *Cost of risk* presented a positive amount of EUR 23 million (EUR 49 million as at 30 June 2018), as a result of net reversals of provisions following disposals of provisioned assets (EUR 11 million) and credit quality evolution of the financial assets.

The *Net gains or losses on other assets* presented a net positive result of EUR 8 million as at 30 June 2018 as a result of the sale of Dexia Israel Bank .

The *Result from discontinued operations, net of tax* amounted to EUR -117 million as at 30 June 2019 (EUR 16 million as at 30 June 2018), following the presentation of DKD as discontinued operations and to its sale to Helaba.

SIMPLIFICATION OF THE GROUP'S STRUCTURE AND IMPACTS ON THE CONSOLIDATED FINANCIAL STATEMENTS

In the framework of the strategy of simplification and reduction of the Group's international footprint, Dexia's Board of Directors of 25 February 2019 validated the transformation plan of the branch DCL New York (DCL NY) in a representation office. This will lead to the transfer to the mother company DCL Paris of all assets, liabilities and related derivatives currently booked in DCL NY and to the centralisation at DCL's head office of most of the business processes currently managed by the NY Branch.

In order to decrease the operational risk related to the financial instruments' transfer, the Board of Directors of 22 May 2019 validated the selection criteria of a portfolio of American assets and decided the launch of the sale process of those assets.

This decision, taken following events occurred during the first half-year 2019, constitutes a change of business model which, in application of the standard IFRS 9, leads to the reclassification of the assets under review, of EUR 5.6 billion nominal, from "financial assets at amortised cost " to:

- "Financial assets at fair value through profit or loss" for the assets decided to be sold;
- "Financial assets at fair value through other comprehensive income" for the assets for which the decision of disposal has not be taken so far.

In line with IFRS 9, the accounting reclassification will become effective at the first day of the reporting period following the decision i.e. as from 1 July 2019.

Based on the valuations on date of reclassification, the impact on the Group's equity was estimated to an amount of around EUR 250 million i.e. an impact of around -0.8% on Dexia's total capital ratio as at 30 June 2019.

Furthermore, in view of the evolving regulation and supervisory requirements, and taking into account the end of the prudential specific approach implemented by the European Central Bank for the supervision of the Dexia Group as well as the end of access to the Euro-system financing for wind-down entities as from 1 January 2022, the Board of Directors of 9 and 19 July 2019 decided to accelerate the decrease and simplification of the group's balance sheet while preserving its solvency. For this purpose, the disposal of a portfolio of around EUR 12 billion nominal is in analysis. According to IFRS 9's requirements, this portfolio will be reclassified as at 1 January 2020, from "assets at amortised cost" to "assets at fair value to profit or loss" or to "assets at fair value through other comprehensive income" according to the specific intention for each asset.

The reclassification of these two asset portfolios will expose Dexia Crédit Local to the evolution of the macroeconomic environment until the effective sale of the designated assets. In particular, Dexia Crédit Local's solvency position will be sensitive to the change of fair value of the unsold reclassified assets in case of a widening of the credit spreads, changes of the interest rates or the foreign exchange.

The Board of Directors reaffirmed the business model of the residual commercial portfolio which will remain classified at amortised cost.

PRESENTATION OF THE EFFECT OF THE STANDARD IFRS 16 ON THE BALANCE AS AT 1ST JANUARY 2019

The accounting policies applicable for lease contracts as from 1st January 2019 under IFRS 16 and the first time application principles, options and exemptions retained are presented in note 1 respectively in sections 2.5 "Update to significant accounting policies disclosed in Note 1.1."Accounting policies and valuation methods" to the 2018 annual financial statements" and 2.1. "IASB texts and IFRIC interpretations endorsed by the European Commission and applied as from 1 January 2019".

The opening balance adjustment presented hereunder result from the applicaton of IFRS 16 as at 1st January 2019.

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

LIABILITIES *in millions of EUR*	31/12/2018	Impact IFRS 16	1/1/2019
Accruals and other liabilities	400	62	462(3)
Provisions	226	(3)	223(4)

(1) Sublease impact.
(2) Recognition of right-of-use assets (EUR 67.5 million) adjusted by the amount of incentives received and still remaining in *Accruals and other liabilities* at transition (EUR -5.7 million), after sublease's impact (EUR -3.5 million) and also considering the onerous contracts (EUR -3 million).
(3) Lease liability (EUR 67.5 million) and lease incentives received (EUR -5.7 million).
(4) Onerous contracts (sublease).

The table hereunder presents the reconciliation between the future net minimum lease payments under non-cancellable operating leases as published in note 2.11.b in the 2018's annual report and the amount of leasing debt presented on balance as at 1st January 2019.

in millions of EUR	
Future net minimum lease payments under non-cancellable operating leases	67
Short terme leasing	(7)
Other	8
Leasing liability - gross amount	68
Actualisation	0
Leasing liability as at 1st January 2019	67

When measuring lease liabilities recognised at the date of initial application, Dexia discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 0.1%.

NOTE II. SEGMENT REPORTING

Having completed its commercial entity disposal program as required under the resolution plan, Dexia and Dexia Crédit Local are 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 Crédit Local's performance is 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.

NOTE III. EXCHANGE RATES

EXCHANGE RATES

		Closing rate			Average rate	
		30/06/2018	31/12/2018	30/06/2019	30/06/2018	30/06/2019
US dollar	USD	1.1660	1.1430	1.1386	1.2069	1.1311

NOTE IV. FAIR VALUE

Some amounts may not add up due to roundings off.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Valuation principles

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted market prices in an active market for identical instruments are to be used as fair value, as they are the best evidence of the fair value of a financial instrument.

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

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

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

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

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

Valuation techniques

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Based on the assumptions that market participants would consider when determining the fair value, Dexia Crédit Local uses for the discounting an overnight rate (OIS) curve for all derivatives, regardless if they are collateralised or not.

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

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

Dexia Crédit Local will continue to improve its models in the next periods following market practice.

2. Financial instruments measured at amortised cost (valuations in disclosures on fair value)

These instruments are valued using the same approach as described above for instruments recognised at fair value on the balance sheet.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables compare fair value with carrying amount of financial instruments not measured at fair value.

FAIR VALUE OF FINANCIAL INSTRUMENTS

	31/12/2018 Continuing operations			31/12/2018 Activities held for sale		
in millions of EUR	Carrying amount	Fair value	Unrecognised fair value adjustment	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	9,269	9,269	0	234	234	0
Debt securities at amortised cost	45,128	38,657	(6,471)	2,789	2,736	(53)
Interbank loans and advances, at amortised cost	23,654	23,813	159	2,354	2,366	12
Customer loans and advances, at amortised cost	35,143	30,428	(4,715)	14,735	15,414	679
Interbank borrowings and deposits	20,930	20,216	(714)	1,065	1,067	2
Customer borrowings and deposits	4,873	4,818	(55)	2,139	2,141	2
Debt securities	67,959	68,219	260	16,614	16,706	92
Subordinated debt	126	125	(1)			

FAIR VALUE OF FINANCIAL INSTRUMENTS

	30/06/2019		
in millions of EUR	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	6,752	6,752	0
Debt securities at amortised cost	45,182	38,788	(6,394)
Interbank loans and advances, at amortised cost	26,577	26,763	186
Customer loans and advances, at amortised cost	34,636	29,822	(4,814)
Interbank borrowings and deposits	19,900	19,890	(10)
Customer borrowings and deposits	3,004	3,005	1
Debt securities	66,519	67,244	724
Subordinated debt	19	19	0

ANALYSIS OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables provide an analysis of assets and liabilities that are measured subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The fair value measurement is recurring. The non-recurring fair value measurement is not significant for Dexia Crédit Local.

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS (RECURRENT MEASUREMENT)

	31/12/2018 Continuing activities			
in millions of EUR	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss	**112**	**9,074**	**4,234**	**13,420**
Financial assets held for trading		6,386	3,772	10,158
- Derivatives		*6,386*	*3,772*	*10,158*
Financial assets mandatorily at fair value through profit or loss	112	2,688	462	3,262
- Debt securities	*28*	*30*	*194*	*252*
- Loans and advances		*2,658*	*236*	*2,894*
- Equity instruments	*84*		*32*	*116*
Hedging derivatives		**962**	**301**	**1,263**
Financial assets at fair value through other comprehensive income	**1,975**	**2,810**	**75**	**4,860**
- Debt securities	*1,969*	*2,055*	*62*	*4,086*
- Loans and advances		*727*	*9*	*736*
- Equity instruments designated at fair value through other comprehensive income	*6*	*28*	*5*	*39*
TOTAL	2,087	12,846	4,610	19,543

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS (RECURRENT MEASUREMENT)

	31/12/2018 Activities held for sale			
in millions of EUR	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss	**32**	**633**	**61**	**726**
Financial assets held for trading		195		195
- Derivatives		*195*		*195*
Financial assets mandatorily at fair value through profit or loss	32	438	61	531
- Debt securities	*32*	*134*	*45*	*211*
- Loans and advances		*304*	*17*	*320*
Hedging derivatives		**2,914**	**245**	**3,159**
Financial assets at fair value through other comprehensive income			**122**	**122**
- Loans and advances			*122*	*122*
TOTAL	32	3,547	428	4,007

FAIR VALUE OF FINANCIAL LIABILITIES (RECURRENT MEASUREMENT)

	31/12/2018 Continuing activities			
in millions of EUR	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit and loss		7,441	4,431	11,872
- Financial liabilities designated at fair value		*1,065*		*1,065*
- Trading derivatives		*6,376*	*4,431*	*10,807*
Hedging derivatives		10,587	10,564	21,151
TOTAL		18,028	14,995	33,023

FAIR VALUE OF FINANCIAL LIABILITIES (RECURRENT MEASUREMENT)

	31/12/2018 Activities held for sale			
in millions of EUR	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit and loss		378	147	525
- Trading derivatives		*378*	*147*	*525*
Hedging derivatives		3,054	649	3,703
TOTAL		3,432	796	4,228

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS (RECURRENT MEASUREMENT)				
	30/06/2019			
in millions of EUR	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss	**113**	**10,012**	**5,118**	**15,243**
Financial assets held for trading		8,021	4,170	12,191
- Derivatives		*8,021*	*4,170*	*12,191*
Financial assets mandatorily at fair value through profit or loss	113	1,990	948	3,051
- Debt securities	*28*	*30*	*180*	*238*
- Loans and advances		*1,961*	*749*	*2,709*
- Equity instruments	*85*		*19*	*104*
Hedging derivatives		**1,023**	**288**	**1,311**
Financial assets at fair value through other comprehensive income	**1,293**	**1,259**	**74**	**2,625**
- Debt securities	*1,287*	*446*	*62*	*1,795*
- Loand and advances		*786*	*7*	*793*
- Equity instruments designated at fair value through other comprehensive income	*6*	*27*	*5*	*38*
TOTAL	1,406	12,294	5,479	19,179

FAIR VALUE MEASUREMENT OF FINANCIAL LIABILITIES (RECURRENT MEASUREMENT)				
	30/06/2019			
in millions of EUR	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit and loss		**9,211**	**5,578**	**14,790**
- Financial liabilities designated at fair value		*1,144*		*1,144*
- Trading derivatives		*8,068*	*5,578*	*13,646*
Hedging derivatives		**10,147**	**11,797**	**21,944**
TOTAL		19,359	17,375	36,734

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.

	30/06/2019	
in millions of EUR	From 1 to 2	From 2 to 1
Financial assets at fair value through other comprehensive income – Debt securities		56
TOTAL FINANCIAL ASSETS		56

As at 30 June 2018, there wasn't any transfer between level 1 and level 2 financial instruments.

The amounts of transfers between levels are the amounts of fair value of financial instruments at closing date.

ANALYSIS OF THE EVOLUTION OF LEVEL 3

	30/06/2018									
in millions of EUR	Opening balance	Total gains/losses in P&L	Unrealised or deferred gains/losses	Purchase	Sale	Settlement	Transfer into level 3	Transfer out of level 3	Other movements (1)	Closing
Non-trading financial assets mandatorily at fair value through profit or loss										
- Debt securities	*662*	*(38)*				*(7)*		*(291)*	*2*	*328*
- Loans and advances	*375*	*228*				*(10)*		*(329)*		*263*
- Equity instruments	*67*	*(3)*				*(14)*			*1*	*50*
Trading derivatives	3,423	301			(61)		257		34	3,954
Hedging derivatives	850	(81)	(20)				47	(15)	2	784
Financial assets at fair value through other comprehensive income										
- Debt securities	*5,699*	*(3)*			*(1,169)*	*(12)*		*(4,474)*	*21*	*62*
- Loans and advances	*137*	*(2)*	*1*			*(8)*				*128*
- Equity instruments	*6*									*6*
TOTAL FINANCIAL ASSETS	**11,218**	**401**	**(19)**		**(1,229)**	**(52)**	**305**	**(5,109)**	**60**	**5,576**
Trading derivatives	4,342	29			(91)	(67)	396		36	4,645
Hedging derivatives	12,099	(1,210)	(30)	579	(151)		171		119	11,577
TOTAL FINANCIAL LIABILITIES	**16,441**	**(1,181)**	**(30)**	**579**	**(242)**	**(67)**	**567**		**155**	**16,222**

(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 78 million in result and to EUR - 17 million recognised in *Unrealised or deferred gains and losses through equity*. On the liabilities side, they amount to EUR 155 million recognised in result.

The amounts of transfers to level 3 or out of level 3 are the amounts of fair value at the closing date. They depend on the liquidity and on the observability of market parameters.

	30/06/2019								
in millions of EUR	Opening balance	Total gains/losses in P&L	Unrealised or deferred gains/losses	Settlement	Transfer into level 3	Transfer out of level 3	Other movements (1)	Consolidation scope (2)	Closing
Non-trading financial assets mandatorily at fair value through profit or loss									
- *Debt securities*	*194*	*(14)*							*180*
- *Loans and advances*	*236*	*(15)*		*(3)*	*530*				*748*
- *Equity instruments*	*32*	*(12)*		*(1)*					*19*
Trading derivatives	3,772	437				(23)	(17)		4,170
Hedging derivatives	301	24	(1)			(36)			288
Financial assets at fair value through other comprehensive income									
- *Debt securities*	*62*								*62*
- *Loans and advances*	*9*		*(1)*		*4*	*(5)*			*7*
- *Equity instruments*	*5*								*5*
Financial assets at fair value included in non current assets held for sale	428							(428)	0
TOTAL FINANCIAL ASSETS	5,039	420	(2)	(4)	534	(63)	(17)	(428)	5,480
Trading derivatives	4,431	1,180			1	(22)	(13)		5,578
Hedging derivatives	10,564	824	92		326		(9)		11,797
Financial liabilities at fair value included in disposal groups held for sale	795							(795)	0
TOTAL FINANCIAL LIABILITIES	15,790	2,004	92		327	(22)	(21)	(795)	17,375

(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 - 16 million in result. On the liabilities side, they amount to EUR - 21 million recognised in result.
(2) Disposal of Dexia Kommunalbank Deutschland.

The amounts of transfers to level 3 or out of level 3 are the amounts of fair value at the closing date. They depend on the liquidity and on the observability of market parameters.

SENSITIVITY OF THE FAIR VALUE OF LEVEL 3 FINANCIAL INSTRUMENTS TO REASONABLY POSSIBLE ALTERNATIVE ASSUMPTIONS

Dexia measures the fair value of the level 3 financial instruments using some unobservable inputs. As this unobservable character injects a certain degree of uncertainty into the valuation, an analysis of the fair value sensitivity of Level 3 instruments to alternative assumptions was performed as at 30 June 2019. The sensitivity analysis has been conducted using reasonably possible inputs or applying assumptions in line with the valuation adjustment policies for the financial instruments in question.

The table hereunder summarizes the financial assets and liabilities classified as Level 3 for which alternative assumptions in one or more unobservable inputs would lead to a significant variation in fair value, as at 30 June 2019.

Financial instruments	Non observables inputs	Alternative assumptions		Impacts on fair value measurement	
		Worst case	Best case	Worst case (in millions of EUR)	Best case (in millions of EUR)
Bonds	Credit spread	+ / - one standard deviation		(1.4)	1.4
Loans	Credit spread	365 bps	80bps	(67.2)	35.1
CDS	Credit spread	+ / - one standard deviation		(14.4)	13.8
Derivatives	Interest Rate	+ / - one standard deviation		(23.1)	23.1
	Spread of CBS	+ / - one standard deviation		(13.3)	13.3
	Inflation	+ / - one standard deviation		(3.2)	3.2
TOTAL				**(122.6)**	**90.0**

The unobservable input in the valuation of bonds and credit derivatives (CDS) classified in level 3 is the credit spread. The alternative assumptions used to measure the fair value sensitivity of those financial instruments are based on the dispersion of the spreads used for their valorization, and consist of applying a shock of +/- one standard deviation to the credit spreads. The sensitivity of the bonds' fair value is estimated range from EUR -1.4 million (reflecting a deterioration in the above-mentioned inputs) to EUR +1.4 million (reflecting an improvement in the above-mentioned inputs), while the sensitivity of the CDS' fair value is estimated range from EUR -14.4 million EUR in the adverse scenario to EUR +13.8 million in the favorable scenario.

For the loans classified in level 3, the alternative assumptions consist in using the minimum and maximum spreads observed when valuating similar assets by Dexia. The impact of those alternative assumptions is estimated to -67.2EUR million for the worst case scenario to EUR + 35.1million for the best case scenario.

For level 3 derivatives, the unobservable market inputs are mainly the interest rate, the inflation and the currency basis spreads (CBS). The alternative assumptions used by Dexia are based on the dispersion of available market data by risk factor and pillar. The sensitivity of each derivative is then determined for a variation of +/- one standard deviation in these inputs. The total impact on the fair value is estimated range between EUR -39.6 million for the worst case scenario and EUR +39.6 million for the best case scenario.

As at 30 June 2018, for level 3 bonds in the portfolio at fair value through other comprehensive income (FVOCI), the sensitivity of the fair value reserve to alternative assumptions was estimated to vary between EUR -0.48 million (negative impact) and EUR +0.48 million (positive impact). For level 3 bonds in the portfolio at fair value through profit or loss (FVTPL), the sensitivity of the fair value to alternative assumptions is estimated to vary between EUR -0.95 million (negative impact) and EUR +0.95 million (positive impact). 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.

As at 30 June 2018, concerning level 3 loans at fair value, two unobservable parameters were identified, the credit spread and an additional spread called "structure add-on" to account for the complexity of the loan. The credit spread used for the valuation is based on the primary and secondary markets for bonds and loans. Their calibration depends mostly on the business sector and the country risk. It should be noted that the portfolio of loans at fair value in level 3 consisted of about fifty positions, most of which are loans to the Italian Local Public Sector.

The impact of the alternative assumptions is estimated at EUR -27.1 million for the worst-case scenario and EUR +25.4 million for the best-case scenario.

NOTE V. RELATED-PARTY TRANSACTIONS

We refer to the note 4.4. Related-party transactions of the Dexia Crédit Local's annual report 2018.

CERTIFICATE FROM THE RESPONSIBLE PERSON

I the undersigned, Wouter Devriendt, Chief Executive Officer of Dexia Crédit Local,

hereby declare that, to the best of my knowledge, the condensed consolidated financial statements for the past half year have been prepared in accordance with all applicable accounting standards and provide a true and fair view of the assets, financial position and earnings of all the companies included in the consolidation, and that the interim business report presents an accurate account of all significant events that have taken place during the first six months of the year and their impact on the financial statements, and of all the main risks and uncertainties concerning the remaining six months of the financial year.

The half-year financial information presented in this report is covered by an audit report prepared by the statutory auditors. Based on their review, nothing has come to the statutory auditors' attention that causes them to believe that the accompanying condensed half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

La Défense, 18 September 2019

Wouter Devriendt
Chief Executive Officer

DEXIA CRÉDIT LOCAL STATUTORY AUDITORS' REVIEW REPORT ON FIRST HALF-YEAR FINANCIAL INFORMATION FOR 2018

PERIOD FROM JANUARY 1ST 2019 TO JUNE 30TH 2019

This is a free translation into English of the statutory auditors' review report on the half-year financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the Group's half-year management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting and in accordance with the requirements of article L.451-1-2 III of the French Monetary and Financial Code ("Code monétaire et financier"), we hereby report to you on:

- the review of the accompanying condensed half-year consolidated financial statements of Dexia Crédit Local, for the period from January 1st 2019 to June 30th 2019,
- the verification of the information presented in the half-year management report.

These condensed half-year consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these statements on our review.

I. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - the standard of IFRSs as adopted by the European Union applicable to interim financial information.

Without qualifying our opinion, we draw your attention to the following matters:

- The note I.1 to the 2019 condensed half-year consolidated financial statements which indicate that these financial statements have been prepared on a going concern basis, in accordance with IAS1,
- The note I.2.1 to the condensed half-year consolidated financial statements, which describes the impacts of the first-time application of IFRS 16 "Leases" and IFRIC 23 "Uncertainty over Income Tax Treatments".

II. Specific verification

We have also verified the information presented in the half-year management report on the condensed half-year consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed half-year consolidated financial statements.

Paris la Défense and Courbevoie, September 9th 2019

The Statutory Auditors

Mazars	Deloitte & Associés
Virginie Chauvin	Jean-Vincent coustel
Claire Gueydan	

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Dexia Crédit Local's Financial Report H1 2019 has been published
by the Communication department.
This report is also available in French. In case of discrepancy between the English and the
French versions, the text of the French version shall prevail.