2017

Half-Yearly Financial Report
at 30 June 2017
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INDEPENDENT AUDITORS’ REPORT ......................................................................... 72
Introduction

The half-yearly financial report for Dexia Crediop S.p.A. was drawn up using the norms issued by CONSOB on the subject, the Bank of Italy's Circular 262/2005 “Banks' Financial Statements: Layouts and preparation,” and the IAS 34 international accounting standard which deal with drawing up interim financial reports.

It consists of the Directors’ Report on Operations, the Balance Sheet and Income Statement, the Statement of Comprehensive Income, Statement of Changes in Shareholders’ Equity, Cash Flow Statement and the Notes to the Statements of Dexia Crediop. The last of these contain the comments on the accounting results as regards important aspects, on the basis of the reclassified Balance Sheet and Income Statement. We note here that the figures in this report are presented in millions of Euro where not otherwise specified.

The interim financial report also includes the certification required by Art. 154-bis, paragraph 5, of Italian Legislative Decree no. 58 (the Consolidated Finance Act – “T.U.F.”), of 24 February 1998, and article 81-ter of Consob Regulation 11971 of 14 May 1999, as amended, and the report on limited auditing issued by the independent auditors.

As of this present financial year, Dexia Crediop no longer prepares consolidated Financial Statement. Notably, in consideration of the conclusion of business by the subsidiary Dexia Crediop Ireland Ulc and the subsequent voluntary liquidation of the same, as well as the absence of additional companies in the Group, the requirements to maintain the Dexia Crediop Banking Group were no longer met.

Due to this, the Bank of Italy provided notification on 9 March 2017 that, effective as of 9 January 2017, Dexia Crediop Ireland Ulc had been removed from the Dexia Crediop Banking Group and, as of the same date, the Dexia Crediop Banking Group had been removed from the Register of Banking Groups, pursuant to article 64 of the Consolidated Banking Law (“T.U.B.”).

Similarly, Tevere Finance S.r.l., subject to de facto control by Dexia Crediop S.p.A., was also placed under liquidation during the first half of 2017 and removed from the Register of Companies on 5 July 2017.

Given the above, the present half-yearly report refers solely to the accounting situation of Dexia Crediop.
1 Report on Operations

1.1 Profile of Dexia Crediop

Dexia Crediop is a bank in run-off, previously specialising in public sector and infrastructure loans. The bank is 70% controlled by Dexia Crédit Local, which is part of the Dexia Group, and is also an investee of BPM S.p.A., which holds a 20% share, and of BPER Banca S.p.A., with a 10% share.

* * *

On 28 December 2012, the European Commission approved the orderly resolution plan for the Dexia Group, submitted by the Belgian, French and Luxembourg states. This plan essentially contemplates the management in run-off without new assets for the entities within the Group which includes, as of 15 July 2014, Dexia Crediop.

In view of the above, Dexia Crediop remains within the scope of consolidation of the Dexia Group and continues to be an integral part of the orderly resolution plan, in line with Dexia’s mandate and objectives, and to benefit from the financial support of the parent company.

The Bank has therefore carried out an organisational restructuring process in accordance with the altered company mission. The organisational restructuring action pursued the objectives of simplification, identification of synergies, development of flexibility and versatility of personnel, adapting the size of operating units to their appointed tasks and proceeding with the closure of four national offices.

1.2 Subsidiaries, investees and shareholding structure of Dexia Crediop

As of 30 June 2017, Dexia Crediop holds control over the following companies:

<table>
<thead>
<tr>
<th>Company name</th>
<th>Headquarters</th>
<th>Investment relationship</th>
<th>% of votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dexia Crediop Ireland Ulc in voluntary liquidation</td>
<td>Dublin</td>
<td>Investor company</td>
<td>Share %</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dexia Crediop</td>
<td>99.99%</td>
</tr>
</tbody>
</table>

1.2.1 Dexia Crediop Ireland Ulc in voluntary liquidation

The company, with share capital of € 10,000, represented by 10,000 shares held by Dexia Crediop (9,999 shares) and Dexia Crédit Local (1 share), ended its activities in November 2016 and was placed in voluntary liquidation on 9 January 2017. After a request by Dexia Crediop, effective as of 9 January 2017 Bank of Italy removed Dexia Crediop Ireland from the Dexia Crediop Banking Group and consequently, in the absence of other group companies, removed the Dexia Crediop Banking Group from the Register of Banking Groups, pursuant to article 64 of Italian Legislative Decree 385/1993 (Consolidated Banking Law).

As of the date this document was prepared, the voluntary liquidation procedure was still under way.
1.2.2 **Tevere Finance**

Tevere Finance, subject to *de facto* control by Dexia Crediop S.p.A., concluded its business on 22 February 2017 following the unwinding of the final existing securitisation transaction. The company, placed in liquidation, was therefore removed from the list of vehicle companies kept by the Bank of Italy and, on 5 July 2017, from the Register of Companies.

1.2.3 **Shareholders of Dexia Crediop**

We note the following changes in the shareholder structure since 30 June 2016:

- on 28 November 2016, Banca Popolare dell’Emilia Romagna Società cooperativa, holder of 10% of the share capital, changed its name to BPER Banca S.p.A.;
- effective as of 1 January 2017, Banca Popolare Soc. Coop. and Banca Popolare di Milano S.c.a.r.l., each of which hold a 10% share, merged and created a new bank known as Banco BPM S.p.A., therefore becoming the holder of a 20% share.

Dexia Crediop share capital is fully underwritten and paid up and amounts to €450,210,000 consisting of 174,500,000 ordinary shares, each with a nominal value of €2.58. On the date this report was approved, they were held as follows:

- Dexia Crédit Local: 122,150,000 ordinary shares, representing 70% of the share capital, totalling €315,147,000;
- Banco BPM S.p.A.: 34,900,000 ordinary shares, representing 20% of the share capital, totalling €90,042,000;
- BPER Banca S.p.A.: 17,450,000 ordinary shares, representing 10% of the share capital, totalling €45,021,000.

Dexia Crediop does not own any of its treasury shares or shares in the parent company, nor has it owned any such shares during the year.

1.3 **Equity investments**

Istituto per il Credito Sportivo (under extraordinary administration): the Istituto per il Credito Sportivo (ICS) was set up under Italian Law n. 1295 of 24 December 1957 and is a public sector bank in accordance with art. 151 of the Consolidated Law on Banking. Technically, it is a "public law entity with autonomous management". On 17 June 2011, ICS was made subject to receivership ordered with a Prime Ministerial decree, in agreement with the Ministry for Cultural Heritage and Assets and with the Italian Ministry of Economy and Finance, and subsequently, with effect from 1 January 2012, to the receivership procedure under the terms of article 70, paragraph 1, letter a) of the Consolidated Law on Banking, on the proposal of the Bank of Italy.

For information on the existing administrative and civil proceedings concerning ICS, see the paragraph “Administrative, judicial, and arbitration procedures”, in this document.

Since the start of the receivership, the company has not been able to pay dividends to shareholders.
1.4 The Dexia Group

Dexia is a European banking group, managed under an orderly resolution plan since 2011. The Group has been 94.4% owned by the Belgian and French states since the end of 2012, subsequent to a € 5.5 billion capital increase, reserved for them.

The orderly resolution plan for Dexia, approved by the European Commission in December 2012, aims to avoid the bankruptcy and liquidation of the Group which due to its residual size, could have destabilising effects on the entire European banking sector.

Taking into account its significance\(^1\), as of 4 November 2014 Dexia passed under the direct supervision of the European Central Bank under the framework of the Single Supervisory Mechanism. The parent company Dexia is a financial joint stock company operating under Belgian law with shares listed on the Euronext market in Brussels.

Dexia Crédit Local is the main operating entity and benefits from funding guarantees up to a maximum of € 85 billion, ensured by the governments of Belgium, France and Luxembourg, to allow for completion of the orderly resolution plan. Dexia Crédit Local has its headquarters in France, where it holds a banking license, with branches in Ireland, the United States, Spain and Portugal and subsidiaries in Germany, Italy and Israel. These organisations also have banking licenses.

Dexia no longer does any commercial business and its activities are focussed solely on the management of its assets in run-off, mainly in the public sector and sovereign loans, while simultaneously protecting the interests of the group of government shareholders and guarantors. To achieve these objectives, the Group has established three main goals:

- to maintain the capacity to refinance its assets for the entirety of the resolution plan;
- to preserve its Tier 1 capital, so as to comply with the capital ratios;
- to guarantee operational continuity, maintaining the necessary skills and resources and developing appropriate IT tools.

\(^1\) Regulation EU No. 468/2014 of the European Central Bank of 16 April 2014.
1.5 Company information

**Dexia Crediop S.p.A.**
00187 Rome, Italy – Via Flavia, 15
Tel. + 39 06 47711 Fax + 39 06 4771 5952
Web: [www.dexia-crediop.it](http://www.dexia-crediop.it)
Certified e-mail: dexia-crediop@pec.dexia-crediop.it

Share capital € 450,210,000 fully paid up
Rome Register of Companies no. 04945821009, Register of Banks no. 5288
Member of the Interbank Deposit Protection Fund and National Guarantee Fund, Company subject to management and coordination by Dexia Crédit Local

**Independent Auditors of Dexia Crediop SpA**
Mazars Italia S.p.A.

***

We note that, in the absence of group companies, as of 9 January 2017 the Bank of Italy removed the Dexia Crediop Banking Group from the Register of Banking Groups, pursuant to article 64 of the Consolidated Law on Banking.
1.5.1 Company bodies

Board of Directors \(^{(1)}\)

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wouter Devriendt</td>
<td>Chairman</td>
</tr>
<tr>
<td>Johan Bohets</td>
<td>Deputy Chairman</td>
</tr>
<tr>
<td>Jean Le Naour</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>Stefano Braschi</td>
<td>Director</td>
</tr>
<tr>
<td>Fabrizio Caputi</td>
<td>Director</td>
</tr>
<tr>
<td>Roberto Ferrari</td>
<td>Director</td>
</tr>
<tr>
<td>Olivier Paring</td>
<td>Director</td>
</tr>
<tr>
<td>Pierre Vérot</td>
<td>Director</td>
</tr>
</tbody>
</table>

Board of Statutory Auditors \(^{(4)}\)

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pierre Paul Destefanis</td>
<td>Chairman</td>
</tr>
<tr>
<td>Nadia Bonelli</td>
<td>Standing auditor</td>
</tr>
<tr>
<td>Nicola Fiameni</td>
<td>Standing auditor</td>
</tr>
<tr>
<td>Jean Paul Baroni</td>
<td>Alternate auditor</td>
</tr>
<tr>
<td>Lucia Foti Belligambi</td>
<td>Alternate auditor</td>
</tr>
</tbody>
</table>

\(^{(1)}\) Board of Directors appointed for the three-year term 2015-2017 by the Ordinary Shareholders' Meeting on 29 April 2015.

\(^{(2)}\) Members of the Board of Directors confirmed in office by the Ordinary Shareholders' Meeting of 29 April 2015.

\(^{(3)}\) Fabrizio Caputi was appointed director by the Ordinary Shareholders' Meeting of 29 April 2015.

\(^{(4)}\) Board of Statutory Auditors appointed for the three-year term 2016-2018 by the Ordinary Shareholders' Meeting on 29 April 2016.

\(^{(5)}\) Confirmed in office by the Ordinary Shareholders' Meeting of 29 April 2016.

\(^{(6)}\) Alternate Auditors confirmed in office by the Ordinary Shareholders' Meeting of 29 April 2016.

\(^{(7)}\) Stefano Braschi was co-opted by the Board of Directors on 22 March 2016 and confirmed in that post by the Ordinary Shareholders' Meeting of 29 April 2016.

\(^{(8)}\) Wouter Devriendt was appointed Chairman of the Board of Directors by the Ordinary Shareholders' Meeting of 28 July 2016, replacing Karel De Boeck who resigned effective 18 May 2016.

\(^{(9)}\) Olivier Paring was appointed a member of the Board of Directors by the Ordinary Shareholders' Meeting of 28 July 2016, replacing Pierre Vergnes who resigned effective 30 June 2016.

\(^{(10)}\) Johan Bohets was co-opted as Director and Deputy Chairperson of the Board of Directors on 10 November 2016, replacing Claude Piret, and was confirmed in that post by the subsequent Ordinary Shareholders' Meeting, also on 10 November 2016.

\(^{(11)}\) Pierre Vérot was co-opted as member of the Board of Directors on 10 November 2016, replacing Édouard Daryabegui Guilani, and was confirmed in that post by the subsequent Ordinary Shareholders' Meeting, also on 10 November 2016.
1.5.2 Other company bodies

Management Committee

Jean Le Naour (as Chairman)
Edoardo Baratella
Emmanuel Campana
Stefano Catalano
Fabrizio Pagani
Daniela Pozzali
Pasquale Tedesco
Stefano Vicari

The Financial Reporting Manager

Emmanuel Campana

1.5.3 Organisation

Internal organisation

Chief Executive Officer
Jean Le Naour

Assets
Fabrizio Pagani
Stefano Catalano
Emmanuel Campana
Pasquale Tedesco
Stefano Vicari
Daniela Pozzali
Edoardo Baratella

Units of the Chief Executive Officer’s Staff

Compliance & Anti-Money Laundering
Claudio Cola

Units which report to the Board of Directors

Internal Audit
Giuseppe Nusiner

(1) At the time this document was drafted.
(2) Members of the Management Committee
(3) Replaced by Daniele Albarin on 14 July
1.6 Internal risk management and control system, pursuant to art. 123-bis, paragraph 2, letter b) of the Consolidated Finance Act

Dexia Crediop has an internal risk management and control system which is able to continuously supervise the typical business risks to which it is exposed. This system involves the Financial Reporting Manager, the Company Boards, the independent auditing firm and the internal audit departments as established by the Corporate Governance Model, introduced in June 2009, following a specific resolution of the Board of Directors.

With regard to financial reporting in particular, the administrative-accounting control system introduced by the Financial Reporting Manager is based on the control framework prepared by the Committee of Sponsoring Organizations (the CoSO Report), which is the most widespread international standard of reference for internal auditing and financial reporting. The system can be divided into the following components:

- definition of the corporate perimeter and of the administrative-accounting processes relevant for financial reporting (known as Scoping);
- assessment of the adequacy of the relevant processes and effective implementation of the controls which mitigate risks linked to accounting and financial reporting, and definition and monitoring of risk mitigation measures (Risk & Control Analysis and Test of Effectiveness - ToE);
- evaluation of the adequacy and effectiveness of the administrative-accounting processes (Evaluation).

The administrative-accounting model is in line with the provisions of Italian Law 262 of 2005 and its subsequent amendments and additions made due to the European Transparency Directive (Italian Legislative Decree no. 6 of November 2007, no. 195).

All analyses and evaluations have been carried out by the Financial Reporting Manager in accordance with this model, and confirm the adequacy and effective application of Dexia Crediop’s administrative-accounting procedures.
1.7 Report on Operations

1.7.1 Public Finance, Corporate and Project Finance activities

The reference situation in the first half of 2017 showed an increase in activity in the public finance sector, with certain commercial banks returning to bid for loan requests issued by public satellites. It is nonetheless premature to state that the trend has been reversed with respect to the static situation of the most recent years, in that the phenomenon requires monitoring for a longer period of time. Concerning the infrastructure and energy projects, while the lack of new initiatives persists, modest activities in refinancing and restructuring existing projects have continued.

In this context, the Assets’ operating activities continue to be concentrated on monitoring and managing existing risks and on searching for opportunities to deleverage, to the degree that this bring benefits in terms of risk reduction and equity and liquidity savings. Finally, activities to support management of disputes with certain local entities are of particular significance.

The Assets area is responsible for the bank's portfolio of commercial assets which, at 30 June 2017, is composed of loans and bonds of 13.4 billion, and from derivatives with customers of around 4.5 billion (notional value, corresponding to a market value of around 0.8 billion).

The contractual counterparties mainly come from the public sector (central administrations, local entities and associated satellite entities), and from private companies in the infrastructure and public utility services sectors. Roughly 72% of the portfolio has an investment grade rating.

Monitoring and management

Existing positions were subject to continuous monitoring in terms of changes in credit risk, both with reference to counterparty risk, and ensuring compliance with covenants and contractual commitments.

During the first half, restructuring of debt associated with a solar project was completed, in which Dexia Crediop maintained an exposure of around 15 million.

Ordinary activities by the organisational unit also involved analysis and definition of numerous waivers and the execution of agency responsibilities, activities which generated fee and commission income of around € 620 thousand.

Deleveraging

From the point of view of the reduction of credit exposure, as noted, the bank’s strategy has been to assess the expediency of selling in the market or, alternatively, the restructuring of the assets in the portfolio. To that end, Assets continuously monitors the price of the assets in the portfolio, determines the effects of possible disposals in terms of reducing liquidity requirements, reducing consumption of equity and the economic result. During the first half, there were no
opportunities to dispose of assets, while early redemptions by customers came to around 41.1 million.

1.7.2 Funding and activity on the markets

Funding & Markets is responsible for hedging liquidity and financial risks and carrying out all transactions on the financial markets for Dexia Crediop.

1.7.2.1 Funding

The economic and financial situation in which funding strategies were carried out in the first half of 2017 involved:

- negative money market rates, well below the European Central Bank rate for refinancing operations;
- a moderate upward trend for long-term interest rates;
- an increase in the credit spread on Italian assets, despite systematic securities purchases made by the European Central Bank. During 2017, the tendency, already highlighted at the end of 2016, continued to increase in yields on Italian government bonds, both in terms of the swap curve and in the yield curve of the German government bonds.

In this situation, the strategy to obtain funds to cover the liquidity gap was structured as follows:

- funding obtained from the domestic money market, with the objective of increasing volumes, thereby benefiting a lower cost of lending with respect to the European Central Bank refinancing rate;
- financial support from shareholders, in particular Dexia Crédit Local, to cover short and long-term requirements not covered by reserves available from European Central Bank refinancing operations.

With regard to short-term funding from the domestic market, significant lending activity carried out on the electronic platforms (MID, MTS repo, New MIC, X-COM) is worthy of note. At 30 June, funding deriving from these sources cumulatively amounted to 4.1 billion (2.7 billion at 31 December 2016). The growth in funding from X-COM which reached 2.4 billion contributed a significant amount to the increase in this form of funding (1.2 billion at 31 December 2016).

As part of the process to diversify and increase funding sources, it should be noted that as of 2016 Dexia Crediop has participated in auctions held by the Ministry of Economy and Finance for the short-term use of its own available liquidity held with the Bank of Italy (OpTes).

Facing these increases, during 2017 the reduction in funding operations with the European Central Bank continued. At the end of the half, there were no funding operations (0.5 billion at 31 December 2016).

The reduction in the use of loans from the Central Bank is due to the strategy to diversify and increase short-term lending sources, as well as the increased contribution of Dexia Crédit Local to satisfying Dexia Crediop's liquidity needs.
Financial support from Dexia Crédit Local to meet the Bank's liquidity requirements was provided through three lending channels:

- loans received with the same cost and duration conditions as those from the European Central Bank: at 30 June, this type of loan amounted to a total nominal figure of 2.5 billion (4.4 billion at 31 December 2016). Through this lending channel the Bank was able to benefit from a surplus of short-term liquidity from the parent company, thereby reducing the use of loans obtained from the Central Bank;
- secured loans: at 30 June, this type of funding had a value of 2.3 billion (unchanged from 31 December 2016), of which 1.9 billion on eligible ECB securities (1.5 billion at 31 December 2016). Through these operations, the Bank was able to benefit from the parent company's position on the European repurchase agreement market;
- unsecured funding to finance requirements not covered by reserves available from the ECB. Through these actions, the Bank can count on support from the parent company Dexia Crédit Local for a total of 6 billion, which adds to the 5.5 billion of operations carried out at the end of 2016 to cover the liquidity gap.

1.7.2.2 Activity on the markets

During 2017, activity on the markets was focused on financial risk management.

In regards to the long term, negotiations on interest rate derivatives for a total of a notional 399 million were carried out, of which 318 million following the unwinding/renegotiation of derivatives in the portfolio, while 81 refer to writeoffs associated with deleveraging of portfolio assets (notional values which also include hedging derivatives carried out with market counterparties).

In regards to short-term, monitoring of financial risks focused on managing re-fixing risk through the stipulation of EONIA swap contracts with durations falling between three and six months.

1.7.3 Audit area activities

1.7.3.1 Risk Management

1.7.3.1.1 Credit risk

Credit risk is the risk of loss linked to the counterparties’ incapacity to honour their financial obligations.

Within Dexia Crediop, credit risk is most significant in the component represented by concentration risk, particularly towards local and regional entities and the Italian Republic. In fact, at the end of March of the present year, credit exposure related to these two types of counterparties amounted, respectively, to 9.3 billion, equal to 50% of total Exposure at Default (EAD) and 6.9 billion, equal to 37% of total EAD. We also note that, again in terms of EAD, around 72% of the bank's portfolio at the end of June of this year has an investment grade rating, based on internal ratings, in line with the previous year.
During the first half of the year, no credit events occurred that required additional writedowns for credit risk, so that its amount related to existing exposures remained extremely limited, equal to 1.2 million. Also considering Dexia Crediop's area of reference, the credit quality of the bank's portfolio continues to be satisfactory as a whole, given the reduced volume of non-performing loans with respect to total loans to customers. In fact, at the end of June of this year, the amount of non-performing loans (NPL) was 58 million, equal to 0.3% of the reference total, consisting of 1.2 million in non-performing loans fully covered by provisions with the remaining part consisting of around 38 million of other secured positions.

In any case, given the size of the volumes in question, credit risk is subject to particularly attentive measurement by the relevant bank departments, with a focus on developments over time.

1.7.3.1.2 Liquidity risk

Liquidity risk is the risk that the bank is not able to fulfil its payment commitments due to an inability to obtain funds from the market (funding liquidity risk) or by making its own assets liquid (market liquidity risk).

This risk is monitored on the basis of expected short-term balances and through medium/long-term projection of the bank's assets and liabilities.

Thanks to funding operations carried out at the end of 2016 and based on current market conditions, without hypotheses based on rating stress, the bank's liquidity gap is covered through to December 2018, a net improvement with respect to the previous situation, which showed a gap of around 5 billion.

Nonetheless, despite the absence of new commercial business, Dexia Crediop's liquidity situation remains dependent upon trends in certain market risks, including:

- the evolution of interest rates which affect the amount of margins to be paid to counterparties against cash collateral contracts (a decrease of 10 basis points in 10-year interest rates generates an increase in liquidity requirements of around 111 million);
- the worsening of the creditworthiness of assets that make up Dexia Crediop's eligible reserves, which is reflected in the value of available reserves. In particular, an increase of 10 basis points in the credit spread decreases the value of reserves by around 65 million. Similarly, the value of Dexia Crediop's available reserves is influenced by the decision made by certain issuers to abandon ratings or agencies drop ratings below the Investment Grade threshold, in particular with reference to the creditworthiness of the Italian Republic.

The Liquidity Coverage Ratio (LCR) represents the bank's capacity to cover its liquidity requirements at 30 days under given situations of stress. The 2017 LCR considers the impact on liquidity of the repurchase of all secured loan operations maturing within 30 days and the related concentration caps applicable to the various classes of available reserves (L1, L2A and L2B).

This repurchasing operation impacts negatively Dexia Crediop’s LCR considering that the outflow of secured assets at the end of June was equal to around 5.8 billion, while the
reintroduction of high quality assets (L1) was only of 4.7 billion. This creates a negative impact of around 1.1 billion on high quality free reserves, which eliminates the possibility of considering the other free reserves (L2) with the application of the caps.

With these criteria, the value reached at the end of June 2017 is equal to the level of 0% (despite free reserves of around 4.4 billion), not meeting the level requested for 2017 in the reference European regulations, equal to 80%. For informational purposes, we note that this ratio would be equal to 61% at the end of June if caps are not applied to the various classes of liquid reserves.

1.7.3.1.3 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human resources and systems, or from external events. This definition includes legal risk, but not strategic or reputational risk.

During the first quarter of the year, four risk events were identified. Nonetheless, no financial losses were seen.

The Risk Control & Self Assessment (RCSA) periodically performed by the bank, including that relating to IT assets, did not identify any areas requiring particular attention and did not require the preparation of any corrective action plans. The same result was achieved with the data quality process, related to prevention and mitigation of risks associated with data and information management quality.

With reference to continuing operations, the most recent annual test performed in 2016 saw entirely satisfactory results. All activities were carried out by predetermined alternative teams, without the identification of any critical issues.

Therefore, as a whole, the bank's exposure to operational risks can be considered to be insignificant. For a detailed illustration of legal and compliance risk, please refer to the subsequent sections dedicated to these issues.

1.7.3.1.4 Market risk

Market risk is the risk of suffering losses due to changes in the value of a financial instrument or portfolio associated with unexpected changes in market conditions.

Currently, exposure to this risk is limited. Considering the bank's run-off status, no new risks arose during the first half of the year, and no additional monitoring was necessary with respect to that already established by the relevant departments. Specifically, to support the management and control process, Dexia Crediop has identified and defined a specific system of limits which consists of guidelines for each of the following main segments:

Cash & Liquidity Management (CLM)
The area of reference includes management and monitoring of short-term interest-rate risk on the banking book. The risk indexes measured are fair value shift sensitivity for a parallel and instantaneous change in
the market interest rate curves of +100 bps and the Value at Risk (VaR) for interest rates at a confidence level of 99% and a holding period of 10 business days. Limits have been set for these indexes, respectively, of 20 million (in absolute value) and 3.5 million;

<table>
<thead>
<tr>
<th></th>
<th>VAR 10 days (Euro)</th>
<th>Shift Sensitivity 100 bps (absolute values in €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 June 2017</td>
<td>333,653</td>
<td>5,002,600</td>
</tr>
<tr>
<td>minimum</td>
<td>64,688</td>
<td>5,002,600</td>
</tr>
<tr>
<td>average</td>
<td>281,939</td>
<td>7,060,807</td>
</tr>
<tr>
<td>maximum</td>
<td>482,280</td>
<td>13,388,400</td>
</tr>
<tr>
<td>operating limit</td>
<td>3,500,000</td>
<td>20,000,000</td>
</tr>
</tbody>
</table>

**ALM Rate**

This includes management and monitoring of long-term interest-rate risk on the banking book. The risk index measured is directional shift sensitivity at 100 bps and rotational shift sensitivity with differentiated shifts. A limit of 15 million (in absolute value) has been set for this index.

<table>
<thead>
<tr>
<th></th>
<th>Sensitivity Shift · (absolute values in €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 June 2017</td>
<td>2,862,401</td>
</tr>
<tr>
<td>minimum</td>
<td>464,149</td>
</tr>
<tr>
<td>average</td>
<td>1,438,587</td>
</tr>
<tr>
<td>maximum</td>
<td>2,862,401</td>
</tr>
<tr>
<td>operating limit</td>
<td>15,000,000</td>
</tr>
</tbody>
</table>

*Directional at 100 bps and rotation with differentiated shifts.

**Structuring**

The area of Structuring corresponds with balanced pairs of derivatives classified as held for trading (HFT), typically composed of a derivative with clients (not the subject of collateralisation agreements) and a derivative of the opposite sign with a primary market counterparty, hedged by a contract of cash collateral of the Credit Support Annex (CSA) type. The main risk index measured is the shift sensitivity of fair value per 1 bps of parallel and instantaneous change in market interest rates. A limit of € ±45,000 has been set for this index.

All the operating limits above have been respected throughout the first half. Additionally, already starting in 2016, exposure to the risk in question fell significantly, due to the following elements:

- a significant reduction in volatility, following the adoption of a single OIS discounting curve for all derivatives, regardless of whether there is a CSA;
- a notable reduction in long-term interest-rate risk on the banking book, achieved in 2016 through specific derivative transactions.

### 1.7.3.1.5 Legal risk

In the context of overall risk management and control, the implications under law and as
In essence, at the end of June, there are still 9 disputes/pre-disputes in course with Italian local and regional government entities for a residual notional amount of around 388 million and a negative mark to market value for the entities, of around 59 million.

Below we note the most significant developments regarding these disputes during the first half.

With reference to the dispute with the Province of Brescia, following the ruling issues by the High Court of London on 21 December 2016, which established the jurisdiction of the English Courts in deciding the claim filed by Dexia Crediop on 21 April 2016, the High Court of London, on 2 February 2017 also ordered the Province of Brescia to reimburse Dexia Crediop for the expenses sustained by the latter during that stage of the case, paying the sum of GBP 190,000 as an advance. The definitive amount is currently being quantified in a separate case.

Regarding the dispute with the Municipality of Messina, the Civil Court of Messina ruled on 11 January 2017, as requested by Dexia Crediop, that it lacked jurisdiction in the case brought forward by the Municipality, indicating that it fell to the English Courts.

With reference to the criminal proceedings concerning the derivatives contracts concluded with the Municipality of Prato, on 31 May 2017 the Criminal Court of Prato fully acquitted Dexia Crediop and a former employee of the offence of defrauding a public entity.

With regard to the civil dispute with the Municipality of Prato, the London Court of Appeals ruled on 15 June 2017, no. [2017] EWCA Civ 428, by which, accepting the requests of Dexia Crediop, established *inter alia* that: (i) the derivatives contracts subscribed by the Municipality of Prato and Dexia Crediop between 2002 and 2006 are fully valid and effective; (ii) the Municipality of Prato had full ability to sign the swap contracts; (iii) the margin applied by the bank in the swap operations was necessary to cover the expected risks and costs, also clarifying the unfounded concept of "implicit costs". The Municipality of Prato was also ordered to reimburse the legal expenses suffered by Dexia Crediop in the two court cases, as well as payment of interest on arrears on netting not paid from 2010 to the present.

Regarding the dispute with the Lazio Region, on 26 June 2017 Dexia Crediop and the Lazio Region signed a settlement agreement which envisages, *inter alia*: (i) full recognition by the Lazio Region of the validity and efficacy of the swap contracts from the start, (ii) the irrevocable renunciation by the Lazio Region of the civil trial; (iii) reimbursement by the Lazio Region of the legal expenses suffered by Dexia Crediop by the latter in the civil proceedings.

Developments in legal disputes have not led to a need to make new provisions for risks and charges at 30/06/2017, with the exception of that related to the increase in netting unpaid by the Municipality of Messina.

### 1.7.3.2 Compliance, Permanent Control and Anti-Money Laundering

During the first half of 2017, Compliance Control and Permanent Control activities were
performed, based on the quarterly control plans determined by the Parent Company, as well as checks on proper insertion of information in the Centralised Computer Archive.

The results of the controls and checks reported above were positive and the areas identified which require attention did not necessitate specific recommendations.

In the field of Anti-Money Laundering, during the first half of 2017 the Know Your Customer review process continued related to active Dexia Crediop counterparties, which includes requirements with reference to the FATCA and CRS fiscal regulations, with reference to counterparties holding financial accounts.

Finally, through coordination with the Parent Company, activities began to analyse the MiFID II and MiFIR regulations that will take effect at the beginning of 2018.

1.7.3.3 Internal Audit

During the first half of 2017, Internal Audit performed third level controls in compliance with Bank of Italy Supervisory Regulations and Parent Company directives, with respect to the principles of objectivity, impartiality and independence, and on the basis of methodology shared by all members of the Dexia Group.

Identification of audit projects was done through the definition of an audit plan, approved by the Board of Directors, based on an annual risk assessment on the main company processes, following the Dexia Group's risk based methodological approach. This approach evaluates residual risk, taking into account the system of internal checks in effect and established to mitigate corporate risks, as well as based on results coming from previous years (backtesting), and the associated actions to remove anomalies and make improvements that have already been completed.

The main checks performed during the first half involved market risk management and monitoring, the Internal Capital Adequacy Assessment Process (ICAAP) review, adjustment of existing customer relations procedures, permanent control activities and the IT audit of the service provider Tiscali.

The results showed certain areas for improvement and updating of the current internal control processes and systems, for better alignment with the context of the company. The related recommendations, shared with the departments in question, gave rise to corresponding action plans subject to periodic follow-up by Internal Audit.

The managers of Internal Audit and Compliance are members of the Supervisory Body pursuant to Legislative Decree 231/2001 and jointly carry out periodic checks on proper implementation of the bank's Organisational Model.

Additionally, Internal Audit supervises the bank's complaint office in compliance with the procedures established through the provisions and regulations of the Supervisory Authorities.
### 1.7.3.4 Human Resources

At 30 June 2017, staff consisted of 108 employees (4 fewer than in December 2016), of which 63% men and 37% women, with an average age of 49 and average seniority of 22 years.

During the first half of 2017, certain organisational changes were made to adjust the structure of certain departments (in particular IT & Facility, Assets, Funding & Markets and General and Legal Secretariat) to changes in course in the company.

With regard to employee training, the corporate training plan "Supporting change and promoting employability" that had begun in June 2016 was completed, lasting around 12 months. The plan, together with certain individual actions, was the subject of specific agreements with company union representatives. These initiatives, for which financing was obtained through the Fondo Banche e Assicurazioni (FBA), had the aim of meeting the training requirements of the various professional groups, taking into account recent changes in the company's organisational structure.

With regard to employee remuneration policies, the new Dexia Group remuneration policy was implemented, shared among all Group entities, which takes into account the specific context Dexia finds itself in, as well as the rules and regulations related to governance and proper management of remuneration currently in effect.

### 1.7.4 Main Support Activities and Projects

In addition to recurring activities, during the first half of 2017 Dexia Crediop carried out a number of projects which required the support of several organisational units.

Below we cite the most significant:

**Erasme** – the ERASME project, shared among all entities, will become fully effective by the first half of 2018. Specifically, for Dexia Crediop, the project has the aim of replacing the current application used to measure derivatives with the Dexia Credit Local platform.

**IFRS9** – Dexia Crediop has launched a specific project coordinated by the Dexia Group, with the objective of adjusting the accounting and supervisory system to the amendments required by the new international accounting standard IFRS 9, which takes effect as of 1 January 2018. In particular, the project has the goals of:

- adjusting the chart of accounts and generation of new accounting records in the General Accounting system, based on the new classification of bank assets and the application of the new impairment calculation model;
- prepare the informational flows necessary for the Dexia Credit Local systems that will assess loan operations and return the information to Dexia Crediop;
- change applications related to regulatory notifications to align the technical forms with the new chart of accounts and accounting classifications.

**Fermat** – The update made to the Fermat application, used by the Group for credit risk management and Basel notifications, made a joint project to adjust data flows necessary. The new
version of the application, which will also implement the changes deriving from the introduction of accounting standard IFRS 9 will take effect at the start of the next year.

**Data Governance** – Data quality is one of the central themes in the strategy used in developing the Dexia Crediop’s IT system. With the objective of creating dedicated software to monitor the overall quality of the data found in the bank’s IT systems, the project will also guarantee automatic execution of a set of control and structural rules, so as to identify any inconsistencies or anomalies within the data in a timely manner. Currently, a pilot project applied to the own securities segment is under way, to be subsequently extended to all other portfolio segments.

**Corporate Reporting** – With the objective of rationalising and simplifying the use of company data by users, the first part of a project to create a company "datamart" was completed, which contains a breakdown of the portfolio of assets and liabilities. The usability of this information is guaranteed by an intranet portal that offers the possibility to export a breakdown to an electronic spreadsheet.

### 1.7.5 Income Statement performance and the interim result

The Dexia Crediop income statement for the first half of 2017 shows net interest income, including net hedging gains (losses), of a positive 29 million, compared to positive 2 million at 30 June 2016. Specifically, net interest income decreased by 9 million, due both to amortisation of stock and disposals of assets, as well as to liquidity management operations put in place at the end of 2016. Vice versa, net hedging gains came to 11 million, compared to losses of 25 million in the same half in 2016. This improvement can be traced to the positive change in ineffective hedges, mainly due to developments in the Euribor versus OIS spread.

Net fee and commission income came to negative 17 million, compared to a positive 1 million at 30 June 2016. The worsening is substantially due to fee and commission expense accrued on the new liquidity line granted by the parent company Dexia Crédit Local for 3.5 billion.

As for the net trading gains totalling 20 million, compared to losses of 18 million during the same period in 2016, these are mainly due to the improvement in the Credit Value Adjustment (CVA) of the bank's non-collateralised derivatives, as well as the Funding Value Adjustment (FVA). In particular, the CVA measurement benefited from the increase in interest rates and lower credit spreads, following the increase in the ratings of certain local entities.

Net writebacks for impairment amounted to 2 million, while they were insignificant in the first half of 2016.

Operating costs, including administrative expenses, amortisation and depreciation, provisions and other operating expenses and income, totalled 20 million, (compared with 33 million at 30 June 2016).

Administrative expenses, totalling 19.5 million, decreased by 4.1 million, mainly due to the lower contribution required for the European Single Resolution Fund. Specifically, this contribution
is equal to 7.2 million, in addition to 1.3 million as an irrevocable commitment, compared to
amount seen in the first half of 2016, which amounted to 10.6 million. Not taking these expenses
into account, the total for administrative expenses came to 12.3 million, lower with respect to the
Corresponding period the previous year by around 0.7 million, following the decrease in personnel
expenses, for IT services and for other general expenses.

Allocations to provisions for risks and charges amounted to 0.6 million, compared to 9
million in the first half of 2016.

Consequently, the profit from current operations before tax amounted to 14 million
compared to a loss of 47 million in the first half of 2016.

Considering income tax of 1 million, net profit for the half-year period was 13 million, with
respect to the loss of 47 million in the first half of 2016.

1.8 Business outlook

1.8.1 Future operational prospects

In order to assess Dexia Crediop’s future operational prospects, it is necessary to refer to
the situation of the Dexia Group, which has adopted an orderly resolution plan approved by the
European Commission on 28 December 2012.

1.8.2 The Dexia Group

Following implementation of this plan, the current scope of the Group corresponds to
Dexia SA and its subsidiary Dexia Crédit Local which holds most of the assets and maintains an
international presence through its branches in Ireland, the United States, Spain and Portugal and
its investees in Germany, Italy and Israel.

The convergence of the Dexia Group’s scope towards that defined in the orderly resolution
plan enables Dexia to devote itself fully to its mission of managing the residual long-term assets
with no new production preserving the interests of the shareholder and guarantor States.

1.8.3 The Dexia Group as a going concern

The consolidated accounts of Dexia S.A. at 30 June 2017 were prepared in compliance with
the accounting standards applicable to companies as a going concern. This requires a number of
assumptions regarding the business plan for the resolution of the Dexia Group, listed below:

- the business plan was constructed starting from the market data at the end of September
  2012. The underlying macroeconomic assumptions were reviewed as part of the half-yearly
  revision of the entire plan.

Specifically, updates carried out on the basis of market data at 31 December 2016,
approved by the Dexia S.A. Board of Directors on 29 June 2017, take into account a funding
plan updated on the basis of more recent market conditions.
In addition, the updates take into consideration the regulatory developments during the period, including the final version of the CRD IV Directive and implementation of the new international accounting standard IFRS 9 starting in 2018.

The updated business plan therefore includes certain differences with respect to the original, especially as regards to the trajectory of the resolution of the Dexia Group with respect to initial assumptions, while not raising doubts at present about the nature and foundations of the same.

- The business plan assumes the maintenance of the banking licence of the various Group entities, as well as the rating of Dexia Crédit Local.

- It also assumes that Dexia maintains a good funding capacity, which is based in particular on the appetite of investors for the debt guaranteed by Belgium, France and Luxembourg, as well as the Dexia Group's ability to obtain secured loans.

From this point of view, from the time of validation of the orderly resolution plan in December 2012, the Group's financing structure has benefited from increased, secured or unsecured, funding in the market, at a significantly lower cost than provided for in the business plan with higher volumes and longer expiry dates. This has enabled the Group to reduce its dependence on financing from the central banks and to free itself from the derogatory financing mechanisms implemented in 2012. As part of its prudent cash management, Dexia has also ensured the maintenance of a cash reserve in order, inter alia, to cope with an increase in the amount of cash collateral paid to its counterparties in derivative operations.

However, for the entire period of resolution of the Group, some uncertainties remain about the implementation of the business plan.

- In particular, it is exposed to impacts deriving from changes to accounting and prudential rules.

- The financial characteristics of Dexia, since its entry into the resolution plan, cannot ensure its compliance with certain regulatory ratios over time.

The business plan is also sensitive to changes in the macroeconomic situation and market parameters, including exchange rates, interest rates and credit spreads, fluctuations in which may affect the business plan. In particular, unfavourable changes in these parameters over time negatively impact the Group's liquidity and solvency position due to an increase in the amount of cash collateral paid by Dexia to its derivative counterparties. In this way, a decrease of 10 basis points in interest rates throughout the curve would translate to an immediate increase of around 1 billion in required liquidity for the group or an impact in the measurement of financial assets and liabilities and over the counter derivatives, fluctuations in which are seen in the income statement and may affect available for sale reserves and the Group's regulatory capital levels.

- Finally, if the market's absorption capacity of the debt guaranteed by the countries were
lower, Dexia would have to turn to more expensive sources of funding that would have a
direct impact on the profitability specified in the business plan.

1.8.4 **Recognition of Dexia's specific and unique situation**

With the introduction of the Single Supervisory Mechanism, Dexia is under the direct
prudential supervision of the ECB. As such, the implementation of the resolution plan was the
subject of a prolonged discussion with the Supervisor, above all during the last year.

Considering Dexia's specific and unique situation as a bank under orderly resolution, the
public nature of its ownership structure and the liquidity guarantees established by the
governments of Belgium, France and Luxembourg, and with the goal of maintaining financial
stability - an objective of the orderly resolution plan - the ECB had decided to apply a prudential
supervisory approach to Dexia that is tailor-made, proportional, pragmatic and appropriate.

The consequent proportionate use of its supervisory powers presupposes, in particular,
that Dexia's situation will not deteriorate significantly. A total reversal of this action could have a
major adverse effect on the activity of Dexia (including its status as a credit institution) and
consequently on its financial conditions.

For example, this approach authorises the proportionate use of supervisory powers in
relation to the respect for the liquidity ratios foreseen in the CRR\(^2\), including reporting on the
liquidity position. Despite the notable progress made by the Group in terms of reducing its
liquidity risk, Dexia's financial characteristics, as of the moment it began resolution, do not make it
possible to guarantee compliance with certain regulatory ratios for the duration of the orderly
resolution plan approved by the European Commission.

The specific circumstances deriving from the orderly resolution plan can be seen on the
level of the Liquidity Coverage Ratio (LCR)\(^3\), for which a minimum requirement of 60% was in
effect as of 1 October 2015, raised to 70% on 1 January 2016 and to 80% as of 2017.

In terms of prudential requirements for solvency that apply to Dexia, following the
Supervisory Review and Evaluation (SREP) carried out by the ECB, the Common Equity Tier 1
requirement applicable for the Dexia Group was set at 8.625% on a consolidated basis as of 1
January 2016.

Even if Dexia's capital position has exceeded the minimum regulatory requirements since its entry
into resolution in December 2012, the bank has been subject to restrictions imposed by the
European Commission based on the principle of “burden sharing.” In particular, this includes a
prohibition on paying dividends, certain restrictions in regards to paying coupons and the
exercising of call options on subordinate debt, and on hybrid capital instruments from Dexia Group
issuers.

1.8.5 **Simplifying and improving integration of the operating model**

In line with the objectives of the business plan issued in 2013, Dexia has continued its

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\(^2\) Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment firms

\(^3\) The LCR measures the coverage of liquidity requirements at 30 days in a deteriorated situation, through the stock of
liquid assets. It replaces the Belgian and French liquidity ratios.
efforts to adjust its operating model to two strategic goals: simplifying the Group and increasing centralisation.

In this context, Dexia has further researched the appropriateness of externalising certain market activities and other bank operating activities, originally investigated in 2015, in particular reporting, commercial processes and maintenance and development of IT systems. This initiative, which involves activities solely in France and Belgium, would allow Dexia to more effectively deal with problems associated with its orderly resolution, managed elimination of its assets portfolio, efficient monitoring of operating expenses and suitable risk management.

1.8.6 *Dexia Crediop*

Dexia Crediop will implement the actions and initiatives defined at the level of the Dexia Group, and held to be suitable for the management of its orderly resolution over time.

In this context, the projection of the net liquidity position is balanced through the end of 2018, indicating negative balances after that. This position benefits from long-term operations carried out with the parent company at the end of 2016, in particular 2 billion related to a two-year deposit and 3.5 billion related to a confirmed credit line with a 3-year duration. Nonetheless, it also suffers from the downgrade in the DBRS rating of the Italian Republic issued on 13 January 2017, which involved a loss in the value of reserves of around 1 billion. For future periods, the liquidity position continues to be exposed to trends in margins paid on cash collateral contracts (influenced by absolute interest rate levels) and the value of available reserves (affected by the credit spread and the rating).

To cover its liquidity gap, in the context of the management in run-off of the Dexia Group, Dexia Crediop will continue to concentrate its funding activities on the domestic interbank market. Funding to cover requirements includes: the inter-bank market, with financing platforms on which Dexia Crediop already operates, and support from the shareholders, in particular from Dexia Crédit Local, as contemplated by the European Commission. The Dexia Group’s funding strategy does not foresee access to the capital market for Dexia Crediop.

That being stated, Dexia Crediop’s dynamic liquidity position looks to be sustainable, on the assumption that the conditions which characterised the year 2016 will persist for coverage of future and unexpected negative changes in the liquidity gap, with particular reference to the Dexia Group’s possibility of gaining access to financing.

In terms of prudential requirements, following the Supervisory Review and Evaluation Process (SREP) carried out by the ECB, the Common Equity Tier 1 requirement applicable for Dexia Crediop was set at 9.875% as of 1 January 2017.

As occurred in recent years and in line with the Group’s guidelines, Dexia Crediop will continue with its opportunistic policy of asset disposals, aimed at reducing credit risk associated with its portfolio and, simultaneously, decreasing the pressure pertaining to funding requirements, while optimising the use of capital.

In addition, over the last few years the bank has become party to some legal proceedings in relation to derivative contracts signed with local and territorial authorities, some of which are
still in progress. Also in the light of the developments seen up to present in these proceedings, and given the substantial correctness and transparency adopted by the bank, it is not held to any writedowns or additional allocations to provisions for risks and charges are required, with the exception of the increase in netting unpaid by the Municipality of Messina at 30/06/2017.

In terms of administrative management, Dexia Crediop continues to rationalise its process and cut costs, in line with actions already begun in previous years.

In conclusion, given what has been illustrated and taking into account the orderly resolution plan approved by the European Commission, the half-yearly financial report for Dexia Crediop was prepared on the assumption that the company is a going concern.

During the resolution, the prospects of Dexia Crediop could suffer from the same factors identified for the Dexia Group, as regards uncertainties connected with the implementation of the plan and, in particular, the Group’s ability to provide support to subsidiaries in a difficult market situation.”

1.8.7 Significant events after the end of the first half

Tevere Finance, following the request made by the liquidator, was removed from the Register of Companies on 5 July 2017.

On 21 July 2017, the European Central Bank announced that access to the Eurosystem monetary policy operations for wind-down entities would end as of 31 December 2021. The Dexia Group falls within the scope of this decision and, in particular, Dexia Crédit Local, Dexia Crediop and Dexia Kommunalbank Deutschland.

Before these measures take effect, the Group will have the possibility to request a maximum loan of 5.2 billion through the Eurosystem, up to the end of 2021. Dexia, acknowledging this decision, will add to this element in determining a structure that will allow it to continue with the orderly resolution process after 2021, the date which corresponds with the end of the current orderly resolution plan.

Taking into account the substantial changes made to Dexia’s loan profile at the end of 2012, and the diversification of its funding sources, the European Central Bank’s decision does not call into question the trajectory of the resolution. In fact, this announcement comes at a time when the Group has already significantly reduced its use of loans from the Eurosystem, with an amount that fell from 16 billion to less than 1 billion during 2016, reaching less than 100 million as of 15 July 2017.

Dexia had already freed itself from all the derogatory financing mechanisms implemented in 2012 as of 2015. By not participating in direct financing of the economy, the Group did not make use of the targeted longer-term refinancing operations implemented within the Eurosystem. Finally, the most recent medium-term liquidity projections prepared by the Group show extremely marginal use of Eurosystem refinancing, which can be replaced by other funding sources in the absence of significant problems on the financial markets. Additionally, Dexia still has the ability to request access to Emergency Liquidity Assistance from the Central Banks, if necessary, in the case these problems arise.
1.9 Reclassification criteria for financial statements

To provide a better understanding of the results of the period, condensed versions of the Income Statement and Balance Sheet have been prepared, making the necessary reclassifications to the models provided in Bank of Italy Circular 262/2005.

These reclassifications are as follows:

- **Balance Sheet**
  - the item “Cash and cash equivalents” has been included under other assets;
  - the item “Hedging derivatives” has been included under other assets/liabilities;
  - the item “Fair value adjustment of financial assets in hedged portfolios” has been included among other assets;
  - tangible and intangible assets have been aggregated into a single item;
  - the provisions for severance indemnities and provisions for risks and charges have been aggregated into a single item;
  - the item “Fair value adjustment of financial liabilities in hedged portfolios” has been included among other liabilities;
  - the profit and valuation reserves have been aggregated into a single item.

- **Income Statement**
  - the item “Net hedging gains (losses)” has been included under net interest income, in relation to the close correlation between hedging derivatives and the instruments hedged;
  - “net trading gains (losses)” and “Gains (losses) on disposal or repurchase” have been aggregated into a single item;
  - writedowns on tangible and intangible assets have been aggregated into a single item.

1.10 Reclassified schedules

Below we provide the reclassified Income Statement and Balance Sheet schedules and the related reconciliations for the items called for in the stated Circular 262/2005.

For the Balance Sheet, data at 30 June was compared with that from the most recent annual report, while in the Income Statement, comparison was made with the corresponding period of the previous financial year (as called for in IAS 34 § 20 – “Interim financial reporting”).

The items in the financial statements recognised at a value of zero are those that at the date in question showed a balance which expressed in millions of Euro was less than the unit.
### Balance Sheet

€ millions

<table>
<thead>
<tr>
<th>Reclassified Balance Sheet</th>
<th>Assets</th>
<th>30/06/2017</th>
<th>31/12/2016</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets for trading</td>
<td>20. Financial assets held for trading</td>
<td>1,663</td>
<td>1,919</td>
<td>-13%</td>
</tr>
<tr>
<td>Financial assets available for sale</td>
<td>40. Financial assets available for sale</td>
<td>421</td>
<td>444</td>
<td>-5%</td>
</tr>
<tr>
<td>Financial assets held to maturity</td>
<td>50. Financial assets held to maturity</td>
<td>63</td>
<td>114</td>
<td>-45%</td>
</tr>
<tr>
<td>Due from banks</td>
<td>60. Due from banks</td>
<td>3,503</td>
<td>3,957</td>
<td>-11%</td>
</tr>
<tr>
<td>Due from customers</td>
<td>70. Due from customers</td>
<td>16,056</td>
<td>16,638</td>
<td>-3%</td>
</tr>
<tr>
<td>Equity investments</td>
<td>100. Equity investments</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Tangible and intangible assets</td>
<td></td>
<td>6</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>120. Tangible assets</td>
<td></td>
<td>3</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>130. Intangible assets</td>
<td></td>
<td>3</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Tax assets</td>
<td>140. Tax assets</td>
<td>16</td>
<td>15</td>
<td>7%</td>
</tr>
<tr>
<td>Other asset items</td>
<td></td>
<td>285</td>
<td>313</td>
<td>-9%</td>
</tr>
<tr>
<td>10. Cash and cash equivalents</td>
<td></td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>80. Hedging derivatives</td>
<td></td>
<td>246</td>
<td>259</td>
<td>-5%</td>
</tr>
<tr>
<td>90. Fair value adjustment of financial assets in hedged portfolios (+/-)</td>
<td></td>
<td>3</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>160. Other assets</td>
<td></td>
<td>36</td>
<td>51</td>
<td>-29%</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td><strong>22,012</strong></td>
<td><strong>23,406</strong></td>
<td><strong>-6%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reclassified Balance Sheet</th>
<th>Liabilities and shareholders’ equity</th>
<th>30/06/2017</th>
<th>31/12/2016</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due to banks</td>
<td>10. Due to banks</td>
<td>11,135</td>
<td>13,002</td>
<td>-14%</td>
</tr>
<tr>
<td>Due to customers</td>
<td>20. Due to customers</td>
<td>4,693</td>
<td>3,126</td>
<td>50%</td>
</tr>
<tr>
<td>Securities in issue</td>
<td>30. Securities in issue</td>
<td>733</td>
<td>1,146</td>
<td>-36%</td>
</tr>
<tr>
<td>Financial liabilities held for trading</td>
<td>40. Financial liabilities held for trading</td>
<td>1,685</td>
<td>1,966</td>
<td>-14%</td>
</tr>
<tr>
<td>Tax liabilities</td>
<td>80. Tax liabilities</td>
<td>1</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Other liabilities items</td>
<td>60. Hedging derivatives</td>
<td>2,780</td>
<td>3,185</td>
<td>-13%</td>
</tr>
<tr>
<td>100. Other liabilities</td>
<td></td>
<td>2,763</td>
<td>3,139</td>
<td>-12%</td>
</tr>
<tr>
<td>Provisions</td>
<td>110. Provision for severance indemnities</td>
<td>33</td>
<td>36</td>
<td>-8%</td>
</tr>
<tr>
<td>120. Provisions for risks and charges</td>
<td></td>
<td>31</td>
<td>34</td>
<td>-9%</td>
</tr>
<tr>
<td>Reserves</td>
<td>140. Valuation reserves</td>
<td>490</td>
<td>478</td>
<td>3%</td>
</tr>
<tr>
<td>170. Reserves</td>
<td></td>
<td>519</td>
<td>503</td>
<td>3%</td>
</tr>
<tr>
<td>Equity</td>
<td>190. Equity</td>
<td>450</td>
<td>450</td>
<td>-</td>
</tr>
<tr>
<td>Profit (Loss) for the period</td>
<td>220. Net profit (Loss) for the period (+/-)</td>
<td></td>
<td>13</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
<td><strong>22,012</strong></td>
<td><strong>23,406</strong></td>
<td><strong>-6%</strong></td>
</tr>
</tbody>
</table>
### Income Statement

<table>
<thead>
<tr>
<th>Reclassified Income Statement</th>
<th>Income Statement</th>
<th>30/06/2017</th>
<th>30/06/2016</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
<td></td>
<td>29</td>
<td>2</td>
<td>n.s.</td>
</tr>
<tr>
<td>10. Interest and similar income</td>
<td></td>
<td>190</td>
<td>209</td>
<td>-9%</td>
</tr>
<tr>
<td>20. Interest and similar expenses</td>
<td></td>
<td>(172)</td>
<td>(182)</td>
<td>-5%</td>
</tr>
<tr>
<td>90. Net hedging gains (losses)</td>
<td></td>
<td>11</td>
<td>(25)</td>
<td>n.s.</td>
</tr>
<tr>
<td>Net fee and commission income</td>
<td></td>
<td>(17)</td>
<td>1</td>
<td>n.s.</td>
</tr>
<tr>
<td>40. Fee and commission income</td>
<td></td>
<td>2</td>
<td>4</td>
<td>-50%</td>
</tr>
<tr>
<td>50. Fee and commission expenses</td>
<td></td>
<td>(19)</td>
<td>(3)</td>
<td>n.s.</td>
</tr>
<tr>
<td>Net trading gains (losses)</td>
<td></td>
<td>20</td>
<td>(18)</td>
<td>n.s.</td>
</tr>
<tr>
<td>80. Net trading gains (losses)</td>
<td></td>
<td>20</td>
<td>(18)</td>
<td>n.s.</td>
</tr>
<tr>
<td>100. Gains (losses) on disposal or repurchase</td>
<td></td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>120. Net interest and other banking income</td>
<td></td>
<td>32</td>
<td>(15)</td>
<td>n.s.</td>
</tr>
<tr>
<td>Net adjustment for impairment</td>
<td></td>
<td>2</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>130. Net adjustment for impairment</td>
<td></td>
<td>34</td>
<td>(15)</td>
<td>n.s.</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td></td>
<td>(19)</td>
<td>(23)</td>
<td>-17%</td>
</tr>
<tr>
<td>Net provisions</td>
<td></td>
<td>(1)</td>
<td>(9)</td>
<td>-89%</td>
</tr>
<tr>
<td>Amortization and depreciation of fixed assets</td>
<td></td>
<td>(1)</td>
<td>(1)</td>
<td>-</td>
</tr>
<tr>
<td>170. Net adjustments on tangible assets</td>
<td></td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>180. Net adjustments on intangible assets</td>
<td></td>
<td>(1)</td>
<td>(1)</td>
<td>-</td>
</tr>
<tr>
<td>Other operating expense/income</td>
<td></td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>190. Other operating expenses/income</td>
<td></td>
<td>(20)</td>
<td>(33)</td>
<td>-39%</td>
</tr>
<tr>
<td>200. Operating costs</td>
<td></td>
<td>34</td>
<td>(15)</td>
<td>n.s.</td>
</tr>
<tr>
<td>Profit (Losses) on disposal of investments</td>
<td></td>
<td>0</td>
<td>1</td>
<td>n.s.</td>
</tr>
<tr>
<td>240. Profit (Losses) on disposal of investments</td>
<td></td>
<td>14</td>
<td>(47)</td>
<td>n.s.</td>
</tr>
<tr>
<td>Income tax</td>
<td></td>
<td>(1)</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>260. Income tax for the period on continuing operations</td>
<td></td>
<td>270. Profit (loss) from continuing operations after tax</td>
<td>13</td>
<td>(47)</td>
</tr>
<tr>
<td>290. Net profit (loss)</td>
<td></td>
<td>13</td>
<td>(47)</td>
<td>n.s.</td>
</tr>
</tbody>
</table>

Dexia Crediop S.p.A.’s results at 30 June 2017 are commented on with regard to notable aspects in the “Notes to the Statements,” based on the reclassification schedules referenced above.
1.11 Alternative performance indicators

Below we provide some economic/financial indicators, which serve as alternatives to the conventional information deducible from the financial statements, related to Dexia Crediop at 30 June 2017.

The ROE\textsuperscript{4} at 30 June 2017 is 2.7\% compared to 30 June 2016 when it was -10.4\%, as a consequence of a net loss annualised for the half and is calculated considering the existing shareholders’ equity at the beginning of the period.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|}
\hline
 & 30 June 2015 & 30 June 2016 & 30 June 2017 \\
\hline
ROE & 5.1\% & -10.4\% & 2.7\% \\
\hline
\end{tabular}
\end{table}

The Cost to Income ratio\textsuperscript{5} as of 30 June 2017 is 60.7\%.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|}
\hline
 & 30 June 2015 & 30 June 2016 & 30 June 2017 \\
\hline
Cost to income ratio & 39.4\% & Not applicable & 60.7\% \\
\hline
\end{tabular}
\end{table}

\textsuperscript{4} ROE (Return on Equity) is calculated as the ratio between annualised net profit for the six month period and shareholders’ equity at the end of the period, excluding the result under formation. This indicator expresses the profitability of own equity.

\textsuperscript{5} Cost to Income ratio is the ratio between operating costs (administrative expenses, depreciation and amortisation) and net interest and other banking income. This indicator is a measure of productivity expressed as a percentage of profit absorbed by operating costs.
ROA\(^6\) at 30 June 2017 came out at 0.11%, compared with -0.37% at 30 June 2016.

The level of risk of the loan portfolio remained stable, with a proportion of non-performing loans that net of adjustments was at zero.

### Net non performing loans out of net loans

<table>
<thead>
<tr>
<th></th>
<th>30 June 2015</th>
<th>30 June 2016</th>
<th>30 June 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net non</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>performing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>loans out of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>net loans</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 1.12 Rating

The rating situation for Dexia Crediop at 30 June 2017 is summarised in the table below.

<table>
<thead>
<tr>
<th></th>
<th>Standard &amp; Poor’s - m/l term</th>
<th>Standard &amp; Poor’s - short term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating</td>
<td>BBB-</td>
<td>A-3</td>
</tr>
</tbody>
</table>

---

\(^6\) ROA (Return on Assets) is calculated as the ratio between annualised net profit and total balance sheet assets. This indicator expresses the profitability of total invested equity.
2 Accounting policies

2.1 Standards and methods used in preparation

The accounting standards adopted when drawing up the interim financial report were essentially unchanged from those used for the 2016 annual report, to which we therefore refer readers for additional information.

With reference to the financial statements, it should be noted that as regards the Balance Sheet the data at 30 June was compared with that from the most recent annual report, whereas for the Income Statement, comparison was made with the corresponding period of the previous financial year, in compliance with the provisions of IAS 34.

2.2 Declaration of compliance with international accounting standards

The Half-Yearly Financial Report of Dexia Crediop at 30 June 2017 was prepared in accordance with the International Financial Reporting Standards and the International Accounting Standards (hereafter “IFRSs”, “IASs”, or international accounting standards) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission according to the procedure referred to in Art. 6 of Regulation (EC) No. 1606/2002 of the European Parliament and the Council dated 19 July 2002, which had been approved at that date.

This interim financial report was drawn up in accordance with the provisions of IAS 34 regarding interim financial reporting. In particular, Dexia Crediop took advantage of the option to provide the interim information in a condensed version, in place of the more complete information called for in the annual report.

2.3 The new accounting standard IFRS 9 Financial Instruments

The accounting standard IFRS 9 “Financial Instruments” was issued by the International Accounting Standards Board (IASB) in July of 2014 and approved by the European Union on 22 November 2016. This standard, which will take effect on 1 January 2018, brings together three stages for the definitive replacement of IAS 39 “Financial Instruments”: Recognition and Measurement: classification and measurement, write-downs for impairment and hedge accounting. The main changes introduced by IFRS 9 include:

- an approach to classification and measurement of financial assets based on the business model of the entity and the financial flows associated with each financial asset;
- a single forward-looking model for the impairment based on expected credit losses;
- a new model for hedge accounting.

Classification and measurement

Financial assets

The new financial asset classification model envisages that they be measured at amortised cost, at fair value with changes recognised to shareholders’ equity (FVOCI - Fair Value Through Other Comprehensive Income) or at fair value through profit and loss (FVTPL). Classification of
financial assets must be done after considering two guidelines: analysis of the characteristics of the contractual flows associated with each asset and the business model adopted to manage said assets.

Assets managed with the objective of holding them to collect contractual cash flows (Hold to Collect), when the latter are represented by Solely Payments of Principal and Interest (SPPI), are measured at amortised cost.

Assets managed with both the objectives of receiving contractual cash flows and/or selling them (Hold to Collect and Sell) and that have SPPI cash flows, are measured at fair value with a contra-entry in shareholders’ equity (Fair Value through Other Comprehensive Income).

Financial assets with cash flows not classifiable as SPPI are measured at fair value through profit and loss (FVTPL).

Financial assets with a business model that does not fall within either of the two previously listed categories (for example HFT assets) are measured at fair value through profit and loss (FVTPL).

The business model reflects the decisions made by Dexia Crediop S.p.A. management. Business model means the methods the entity uses to manage its assets in order to generate cash flows. In particular, a distinction is made between cases in which cash flows are generated by the receipt of contractual flows, from sales of assets or from a combination of the two methods.

Derivatives continue to be measured at fair value through profit and loss (FVTPL). In the case they are part of a hedging relationships, measurement follows that of the relationship itself.

Financial liabilities

The basic category for financial liabilities continues to be amortised cost, as in IAS 39. The exception is liabilities measured at fair value through profit and loss (FVTPL), such as derivatives and financial liabilities held for trading and liabilities designated for FVO.

The most significant change in measurement of financial liabilities in accordance with IFRS 9 is the fact that the standard now requires that for liabilities designated at fair value through profit and loss (FVTPL), changes in fair value of own credit risk are recognised within Other Comprehensive Income (OCI) and not in the income statement.

Impairment

IFRS 9 establishes a new impairment model based on expected losses, which replaces the incurred losses model found in IAS 39. The scope of application is financial assets measured at amortised cost, debt instruments measured at fair value with offsetting in other comprehensive income, leasing contracts, financial guarantees issued and loan commitments.

In this model, each financial instrument (with the exclusion of those originating or purchased as already non-performing) is placed in one of the three buckets established by the
standard, based on changes in its credit risk starting from the initial evaluation:

- **Bucket 1**: financial instruments that have not suffered significant reductions in terms of credit quality after initial recognition;
- **Bucket 2**: financial instruments that have suffered significant reductions in terms of credit quality after initial recognition, but for which objective evidence of a loss of value does not exist;
- **Bucket 3**: non-performing financial instruments.

Given that IFRS 9 does not provide a precise definition of “default”, Dexia Crediop has chosen to use a prudential definition found in EU regulation 575/2013, consistent with that provided by the supervisory authorities and used by credit risk management.

**Hedge accounting**

The new IFRS 9 rules for hedge accounting involve greater connections with risk management operations.

With respect to IAS 39, IFRS 9 leaves unchanged hedge accounting models based on three types (cash flow hedge, fair value hedge and hedges of net investment in a foreign operation), as well as the need to designate and document the initial hedge and its effectiveness.

The main changes introduced with the new standard include simplification of the hedge efficacy test, with the removal of the 80 - 125% threshold foreseen in IAS 39 and the requirement for additional disclosures.

While awaiting a future standard dedicated to macro hedging relationships, IFRS 9 allows continued usage of the provisions within IAS 39 on portfolio hedging.

**Projects in course and associated impacts**

Dexia Crediop has begun the IFRS 9 project within the context of a specific Dexia Group project task force.

The initial stage of analysing impacts from the application of IFRS 9 was done, reviewing the characteristics, classification and measurement methods used for all financial assets.

Initial analysis suggested that most assets fall in the SPPI category, and can therefore be included in the categories of assets measured at the amortised cost or at fair value through other comprehensive income. These assets mainly consist of plain vanilla type fixed or variable rate loans and debt securities.

Some loans with structured interest rates will be classified within the FVTPL category.

As regards the financial assets classified as SPPI, these will be measured at amortised cost or at FVOCI based on the business model decisions made by Dexia Crediop S.p.A., still under way.
Notably, based on the resolution plan approved by the European Commission in 2012, Dexia Crediop, as well as the rest of the Dexia Group, cannot generate new financial assets and manages its residual assets in run-off, without an obligation to accelerate sales. In consideration of this, the reference business model will be “Hold to Collect”, while a portion of assets will be classified as “Hold to Collect and Sell”, kept in the portfolio while awaiting an opportunity for a sale.

Additionally, the Dexia Group has begun developing a new model to calculate impairment, from which Dexia Crediop will also benefit.

Financial assets will be divided into three buckets, based on the following approach:

- financial assets in default, as defined in the prudential regulations, will be placed in bucket 3.
- As for the other financial assets, placement in buckets 1 or 2 will depend on the results of:
  1) a quantitative test that will determine whether credit risk has become impaired following initial recognition and the significance of said impairment. This test will be based on changes in the default probability of the exposure from the date of origin to the reporting date;
  2) a qualitative test that includes a review of positions included on the watch list, identification of forborne exposures and sensitive economic sectors.

If one of the two tests gives a positive result, the asset will be classified in bucket 2. Otherwise, it will be classified in bucket 1.

Estimates of expected losses are based on a 12 month expected loss model for assets in bucket 1, while an expected loss model for the entire duration of the instrument will be used for assets in buckets 2 and 3.

The amount of expected losses is based on exposure at the time of default, probability of default and losses consequences to a default, calculated carefully and using forward looking information, taking into account macroeconomic assumptions and forecasts for the medium period.

First adoption options

As is allowed under IFRS 9, Dexia Crediop has decided not to present comparative information for 2017 in the annual report for 2018, recalculated within the scope of application of IFRS 9, but to instead maintain the data shown on the basis of the provisions within IAS 39.

Impacts from initial adoption of IFRS 9 on the Dexia Crediop S.p.A. financial statements.

The impact of the adjustments deriving from adoption of IFRS 9 at 1 January 2018 will be directly recognised in specific shareholders’ equity accounts, retrospectively, as if the financial assets had been measured on the basis of the provisions of IFRS 9 as of initial recognition.

At present, based on the preliminary analysis done, which however is subject to various uncertainties, Dexia Crediop could see the following impacts on equity from initial application of
IFRS 9 at 1 January 2018:

- reclassification of limited structured loan positions, based on their characteristics (not SPPI), from the amortised cost to the FVTPL category. The impact is expected to be negative, due to a widening of the credit spread.

- reclassification of financial assets available for sale (AFS) into the amortised cost category. This reclassification will presumably have a positive impact, due to the possibility of eliminating unrealised gains or losses from these assets, recognised to the shareholders’ equity based on IAS 39 (including AFS reserves relating to assets later reclassified in the LOR category);

- reclassification of debt securities or loans held for sale, in the case of favourable opportunities on the market, from the amortised cost category found in IAS 39 (LOR) to the FVOCI category found in IFRS 9, which will lead to the recognition of profits or losses within the bank’s own economic resources. The impact is expected to be negative, due to a widening of the spread since the initial moment;

- recognition of additional allocations to provisions for credit risk, which are undergoing measurement. Dexia Crediop S.p.A. does not expect substantial changes to financial assets classified in bucket 3, in that the current measurement method is quite similar to that which will be used with the adoption of IFRS 9.

As regards the financial assets classified in bucket 1, provisions should be limited on the basis of the measurement of estimated expected losses over 12 months. On the other hand, for assets classified within bucket 2, which includes financial instruments whose credit quality has declined since initial measurement and those placed on the watchlist and classified as forborne, an increase in provisions is expected.

The impact that this will produce on the financial statements depends on some uncertainties, including:

- developments in market conditions and changes in market credit spreads;
- calibration of the expected loss model, including the macroeconomic scenarios considered in the measurement.

2.4 Events after the reporting date

For events after closure of the first half, please see paragraph 1.8.7. of the Report on Operations.
3 Accounting statements

3.1 Financial statements

BALANCE SHEET

<table>
<thead>
<tr>
<th>Assets</th>
<th>30/06/2017</th>
<th>31/12/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>10. Cash and cash equivalents</td>
<td>0</td>
<td>0</td>
</tr>
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<td>70. Due from customers</td>
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<td>16,638</td>
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<tr>
<td>80. Hedging derivatives</td>
<td>246</td>
<td>259</td>
</tr>
<tr>
<td>90. Fair value adjustment of financial assets in hedged portfolios (+/-)</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>100. Equity investments</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>110. Tangible assets</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>120. Intangible assets</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- goodwill</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>130. Tax assets</td>
<td>16</td>
<td>15</td>
</tr>
<tr>
<td>a) current</td>
<td>16</td>
<td>15</td>
</tr>
<tr>
<td>b) advance</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>of which pursuant to Law 214/2011</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>150. Other assets</td>
<td>36</td>
<td>51</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>22,012</strong></td>
<td><strong>23,406</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and shareholders’ equity</th>
<th>30/06/2017</th>
<th>31/12/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>10. Due to banks</td>
<td>11,135</td>
<td>13,002</td>
</tr>
<tr>
<td>20. Due to customers</td>
<td>4,693</td>
<td>3,126</td>
</tr>
<tr>
<td>30. Securities in issue</td>
<td>733</td>
<td>1,146</td>
</tr>
<tr>
<td>40. Financial liabilities held for trading</td>
<td>1,685</td>
<td>1,966</td>
</tr>
<tr>
<td>60. Hedging derivatives</td>
<td>2,763</td>
<td>3,139</td>
</tr>
<tr>
<td>80. Tax liabilities</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>100. Other liabilities</td>
<td>17</td>
<td>46</td>
</tr>
<tr>
<td>110. Provision for severance indemnities</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>120. Provisions for risks and charges</td>
<td>31</td>
<td>34</td>
</tr>
<tr>
<td>a) post employment benefits</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>b) other provisions</td>
<td>31</td>
<td>32</td>
</tr>
<tr>
<td>130. Valuation reserves</td>
<td>-29</td>
<td>-25</td>
</tr>
<tr>
<td>160. Reserves</td>
<td>519</td>
<td>503</td>
</tr>
<tr>
<td>180. Equity</td>
<td>450</td>
<td>450</td>
</tr>
<tr>
<td>200. Net profit (Loss) for the period (+/-)</td>
<td>13</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total liabilities and shareholders’ equity</strong></td>
<td><strong>22,012</strong></td>
<td><strong>23,406</strong></td>
</tr>
</tbody>
</table>
## INCOME STATEMENT

<table>
<thead>
<tr>
<th>Income Statement items</th>
<th>1st half 2017</th>
<th>1st half 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>10. Interest and similar income</td>
<td>190</td>
<td>209</td>
</tr>
<tr>
<td>20. Interest and similar expenses</td>
<td>(172)</td>
<td>(182)</td>
</tr>
<tr>
<td>30. Net Interest income</td>
<td>18</td>
<td>27</td>
</tr>
<tr>
<td>40. Fee and commission income</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>50. Fee and commission expenses</td>
<td>(19)</td>
<td>(3)</td>
</tr>
<tr>
<td>60. Net fee and commission income</td>
<td>(17)</td>
<td>1</td>
</tr>
<tr>
<td>70. Dividends and similar income</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>80. Net trading gains (losses)</td>
<td>20</td>
<td>(18)</td>
</tr>
<tr>
<td>90. Net hedging gains (losses)</td>
<td>11</td>
<td>(25)</td>
</tr>
<tr>
<td>100. Gains (losses) on disposal or repurchase of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Loans</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>b) Financial assets available for sale</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>d) Financial liabilities</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>120. Net interest and other banking income</td>
<td>32</td>
<td>(15)</td>
</tr>
<tr>
<td>130. Net adjustments for impairment of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Loans</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>d) Other financial transactions</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>140. Net income from financial activities</td>
<td>34</td>
<td>(15)</td>
</tr>
<tr>
<td>150. Administrative expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Personnel expenses</td>
<td>(19)</td>
<td>(23)</td>
</tr>
<tr>
<td>b) Other administrative expenses</td>
<td>(7)</td>
<td>(7)</td>
</tr>
<tr>
<td>160. Net provisions for risks and charges</td>
<td>(12)</td>
<td>(16)</td>
</tr>
<tr>
<td>170. Net adjustments on tangible assets</td>
<td>(1)</td>
<td>(9)</td>
</tr>
<tr>
<td>180. Net adjustments on intangible assets</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>190. Other operating expenses/income</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>200. Operating costs</td>
<td>(20)</td>
<td>(33)</td>
</tr>
<tr>
<td>240. Profit (Losses) on disposal of investments</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>250. Profit (Loss) from continuing operations before tax</td>
<td>14</td>
<td>(47)</td>
</tr>
<tr>
<td>260. Income tax for the period on continuing operations</td>
<td>(1)</td>
<td>0</td>
</tr>
<tr>
<td>270. Profit (Loss) from continuing operations after tax</td>
<td>13</td>
<td>(47)</td>
</tr>
<tr>
<td>290. Net profit (loss)</td>
<td>13</td>
<td>(47)</td>
</tr>
</tbody>
</table>
### STATEMENT OF COMPREHENSIVE INCOME

<table>
<thead>
<tr>
<th>Items</th>
<th>1st half 2017</th>
<th>1st half 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>10. Net profit (Loss) for the period</td>
<td>13</td>
<td>(47)</td>
</tr>
<tr>
<td>40. Other income components net of tax without reversal to income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>statement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actuarial gains (losses) on defined benefit schemes</td>
<td>2</td>
<td>(4)</td>
</tr>
<tr>
<td>90. Other income components net of tax with reversal to income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>statement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flow hedging</td>
<td>(8)</td>
<td>5</td>
</tr>
<tr>
<td>100. Financial assets available for sale</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>130. Total other income components net of tax</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>140. Comprehensive income (items 10 + +130)</td>
<td>8</td>
<td>(46)</td>
</tr>
</tbody>
</table>

### Statement of changes in shareholders’ equity

Below we provide the statement of changes in shareholders’ equity at 30 June 2017.

#### STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY AS AT 30 JUNE 2017

<table>
<thead>
<tr>
<th></th>
<th>Balances at 31.12.2016</th>
<th>Changes to initial balances</th>
<th>Balances at 01.01.2017</th>
<th>Allocation of profit of the previous period</th>
<th>Changes during the half</th>
<th>Shareholders’ equity as at 30.06.2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) ordinary shares</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td></td>
<td></td>
<td>450</td>
</tr>
<tr>
<td>b) other shares</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share premiums</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserves</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) of profits</td>
<td>503</td>
<td>503</td>
<td>503</td>
<td></td>
<td></td>
<td>503</td>
</tr>
<tr>
<td>b) others</td>
<td>503</td>
<td>503</td>
<td>503</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valuation reserves</td>
<td>(25)</td>
<td>(25)</td>
<td></td>
<td>(5)</td>
<td></td>
<td>(29)</td>
</tr>
<tr>
<td>Equity instruments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasury shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit (Loss) for the period</td>
<td>16</td>
<td>16 (16)</td>
<td></td>
<td></td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>944</td>
<td>944</td>
<td>944</td>
<td></td>
<td></td>
<td>8</td>
</tr>
</tbody>
</table>

Millions of Euro
## Statement of Changes in Shareholders’ Equity as at 30 June 2016

<table>
<thead>
<tr>
<th>Balances at 31.12.2015</th>
<th>Changes to initial balances</th>
<th>Balances at 01.01.2016</th>
<th>Allocation of profit of the previous period</th>
<th>Changes during the half</th>
<th>Operations on shareholders’ equity</th>
<th>Comprehensive income 30.06.2016</th>
<th>Shareholders’ equity as at 30.06.2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Balances</td>
<td></td>
<td>New shares issues</td>
<td>Purchase of treasury shares</td>
<td>Extraordinary distribution of dividend</td>
</tr>
<tr>
<td><strong>Equity:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) ordinary shares</td>
<td>450</td>
<td>450</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) other shares</td>
<td>450</td>
<td>450</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Share premiums</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Reserves:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) of profits</td>
<td>531</td>
<td>531</td>
<td>(29)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) others</td>
<td>531</td>
<td>531</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Valuation reserves</strong></td>
<td>(43)</td>
<td>(43)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Equity instruments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Treasury shares</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit (Loss) for the period</td>
<td>(29)</td>
<td>(29)</td>
<td>(29)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>909</td>
<td>909</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

** Millions of Euro **
### 3.3 Cash flow statement

#### A. OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>€ millions</th>
<th>30/06/2017</th>
<th>30/06/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- net income (+/-)</td>
<td></td>
<td>13</td>
<td>(47)</td>
</tr>
<tr>
<td>- capital gains/losses on financial assets/ liabilities</td>
<td></td>
<td>(20)</td>
<td>18</td>
</tr>
<tr>
<td>- capital gains/losses on hedging assets (+/-)</td>
<td></td>
<td>(11)</td>
<td>25</td>
</tr>
<tr>
<td>- net adjustments for impairment (+/-)</td>
<td></td>
<td>(2)</td>
<td>0</td>
</tr>
<tr>
<td>- net adjustments of tangible and intangible fixed assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- net provisions for risks and charges and other costs/ revenues (+/-)</td>
<td></td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>- taxes and duties to be settled (+)</td>
<td></td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>- other adjustments (+/-)</td>
<td></td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

#### 2. Cash flow from / used in financial assets

<table>
<thead>
<tr>
<th>Description</th>
<th>€ millions</th>
<th>30/06/2017</th>
<th>30/06/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>- financial assets held for trading</td>
<td>1,427</td>
<td>(599)</td>
<td></td>
</tr>
<tr>
<td>- financial assets available for sale</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- due from banks: on demand</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- due from banks: other receivables</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- due from customers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- other assets</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### 3. Cash flow from / used in financial liabilities

<table>
<thead>
<tr>
<th>Description</th>
<th>€ millions</th>
<th>30/06/2017</th>
<th>30/06/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>- due to banks: repayable on demand</td>
<td>(1,406)</td>
<td>594</td>
<td></td>
</tr>
<tr>
<td>- due to banks: other deposits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- due to customers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- securities in issue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- financial liabilities held for trading</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- other liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Net cash flow from (used in) operating activities**

0

#### B. INVESTING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>€ millions</th>
<th>30/06/2017</th>
<th>30/06/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Liquidity provided by</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>- sales of equity investments</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- dividends collected from equity investments</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- sales of tangible assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**Net liquidity provided/used by investment activities**

0

#### C. FUNDING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>€ millions</th>
<th>30/06/2017</th>
<th>30/06/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>- distribution of dividends and other uses</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Net liquidity provided/used by funding activities**

0

**NET LIQUIDITY PROVIDED/USED IN THE PERIOD**

0

#### RECONCILIATION

<table>
<thead>
<tr>
<th>Balance Sheet Items</th>
<th>€ millions</th>
<th>30/06/2017</th>
<th>30/06/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents at start of period</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total net liquidity provided/used in period</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Cash and cash equivalents: effect of variations in exchange rates</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of period</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

KEY: (+) provided (-) used
4 Notes to the Statements

4.1 Statement of Financial Position

The section in question provides the equity figures at 30 June 2017, compared with the balances in the 2016 financial statements. Related changes, when significant, are accompanied by illustrative notes for changes in the equity situation.

4.1.1 Receivables

The item includes non-derivative financial assets with fixed or determinable payments, which are not quoted in an active market, and which are not designated as “Financial assets available for sale” on the date of initial recognition.

Normally, this includes loans to clients and banks including debt securities with characteristics similar to loans.

The book value of loans is periodically subjected to checks for the existence of any impairment losses. To this end, for classification of impaired exposures in the various risk categories (non-performing loans, unlikely to pay, impaired past-due and/or over-the-limit exposures), reference is made to the regulations issued on the subject by the Bank of Italy together with the internal provisions which establish rules for classification and transfers within the scope of the various expected risk categories.

Writedowns to be booked to loans and recognised in the Income Statement, net of any previous provisions, are equal to the difference between the book value at the time of assessment (the amortised cost) and the current value of expected future cash flows, calculated by applying the original effective interest rate. The estimate of future cash flows takes account of expected recovery times, the estimated realisable value of any existing guarantees and of any costs considered necessary for recovery of the loan exposure (for a detailed numeric explanation, please refer to section 4.3 “Comments on risks and hedging policies”).

The composition of the item in question at 30 June 2017, net of the related value writedowns, was as follows:

<table>
<thead>
<tr>
<th></th>
<th>30/06/2017</th>
<th>31/12/2016</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due from banks</td>
<td>3,503</td>
<td>3,957</td>
<td>-11%</td>
</tr>
<tr>
<td>Loans</td>
<td>141</td>
<td>164</td>
<td>-14%</td>
</tr>
<tr>
<td>Other transactions</td>
<td>3,362</td>
<td>3,793</td>
<td>-11%</td>
</tr>
<tr>
<td>Due from customers</td>
<td>16,056</td>
<td>16,638</td>
<td>-3%</td>
</tr>
<tr>
<td>Loans</td>
<td>5,918</td>
<td>6,471</td>
<td>-9%</td>
</tr>
<tr>
<td>Debt securities</td>
<td>9,244</td>
<td>9,564</td>
<td>-3%</td>
</tr>
<tr>
<td>Other transactions</td>
<td>894</td>
<td>604</td>
<td>48%</td>
</tr>
<tr>
<td>Total loans</td>
<td>19,559</td>
<td>20,595</td>
<td>-5%</td>
</tr>
</tbody>
</table>

4.1.1.1 Loans

Total loans at 30 June 2017 totalled 6,059 million, of which 5,918 to ordinary clients and 141 million to credit institutions.
4.1.1.2 Debt securities

The items Due from Banks and Due from Customers include debt securities classified in the functional portfolio “Loans and Receivables” (L&R), which at 30 June 2017 totalled 9,244 million, which refer entirely to receivables from customers.

4.1.1.3 Other transactions

“Other transactions” includes receivables deriving from interbank deposits for 3,331 million and deposits from customers for 892 million.

4.1.2 Financial assets

The composition of financial assets other than those found in Loans and Receivables is as follows:

<table>
<thead>
<tr>
<th>IAS category</th>
<th>30/06/2017</th>
<th>31/12/2016</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets held for trading (HFT)</td>
<td>1,663</td>
<td>1,919</td>
<td>-13%</td>
</tr>
<tr>
<td>Financial assets available for sale (AFS)</td>
<td>421</td>
<td>444</td>
<td>-5%</td>
</tr>
<tr>
<td>Financial assets held to maturity (HTM)</td>
<td>63</td>
<td>114</td>
<td>-45%</td>
</tr>
<tr>
<td>Total</td>
<td>2,147</td>
<td>2,477</td>
<td>-13%</td>
</tr>
</tbody>
</table>

4.1.2.1 Financial assets held for trading (HFT – Held For Trading)

This item, which amounted to 1,663 million, includes only derivatives not designated as hedging instruments, carried at fair value as recognised in the income statement. These contracts are considered financial assets if their fair value is positive and liabilities if their fair value is negative. Hence, this item should be read together with the value found in “Financial liabilities held for trading”, which amounted to 1,685 million.

4.1.2.2 Financial assets available for sale (AFS – Available For Sale)

Financial assets available for sale are initially booked at fair value, including any costs or income coming from the transaction that can be directly attributed to the asset in question. After the initial booking, changes in fair value are booked to a specific shareholders’ equity reserve until the financial asset is either derecognised or no longer shows a loss of value.

Determination of fair value for financial assets available for sale is based on the prices indicated by the appropriate Risk organisational unit in active markets, by prices provided by operators, or through the use of internal evaluation models which are generally used for financial practices.

Financial assets available for sale include debt securities not held for trading purposes totalling 394 million, equity securities which cannot be qualified as subsidiaries, associated companies, or joint subsidiaries in the amount of 26 million, and mutual fund shares totalling 0.4, these latter referring to the Mid Capital Mezzanine Fund.

Below we provide the amounts at 30 June 2017:
<table>
<thead>
<tr>
<th>Equity securities and mutual fund shares</th>
<th>Book value at 30/06/2017</th>
<th>AFS reserve at 30/06/2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Istituto per il Credito Sportivo</td>
<td>26</td>
<td>1</td>
</tr>
<tr>
<td>Equity securities</td>
<td>26</td>
<td>1</td>
</tr>
<tr>
<td>Mid Capital Mezzanine Fund (mutual fund shares)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Securities (Mutual fund shares)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>1</td>
</tr>
</tbody>
</table>

As far as the Istituto per il Credito Sportivo (ICS) is concerned, see the explanation in paragraph 1.3.

For debt securities, with a book value of 394 million, measurement at fair value led the emergence of a positive reserve of 14 million for assets currently classified as AFS.

4.1.2.3 Financial assets held to maturity (HTM – Held To Maturity)

The financial assets in question are booked in the annual report at the amortized cost and periodically subjected to tests regarding any impairment losses that may have occurred.

To this end, if there is any objective evidence of impairment, the amount of the same is measured as the difference between the book value of the asset and the present value of future cash flows and is recognised in the Income Statement.

At 30 June 2017, these assets did not show any loss of value.

This item, totalling 63 million, includes only debt securities that the bank has the effective intention and capacity to hold until maturity. During the period there were no sales or purchases of securities classified in the HTM portfolio.

4.1.3 Tangible and intangible assets

Tangible assets amount to 3 million and refer to furniture and equipment for 2.5 million and to a building for 0.3 million.

<table>
<thead>
<tr>
<th>Breakdown</th>
<th>30/06/2017</th>
<th>31/12/2016</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Assets for business purposes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- land</td>
<td>0</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>- buildings and furniture</td>
<td>3</td>
<td>3</td>
<td>0%</td>
</tr>
<tr>
<td>Total A</td>
<td>3</td>
<td>3</td>
<td>0%</td>
</tr>
<tr>
<td>B. Assets held as investments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- buildings</td>
<td>0</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Total B</td>
<td>0</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Total (A+B)</td>
<td>3</td>
<td>3</td>
<td>0%</td>
</tr>
</tbody>
</table>
Intangible assets totalled 3 million and refers to software purchased from third parties in the process of amortisation.

4.1.4 **Tax assets**

Tax assets totalled 16 million and mainly refer to IRES and IRAP credits for current taxes for which reimbursement has been requested and withholdings on interest, premiums and other earnings on bonds;

4.1.5 **Debt instruments and securities in issue**

At 30 June 2017, total financial liabilities in question were as follows:

<table>
<thead>
<tr>
<th>IAS category</th>
<th>30/06/2017</th>
<th>31/12/2016</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due to banks</td>
<td>11,135</td>
<td>13,002</td>
<td>-14%</td>
</tr>
<tr>
<td>Due to customers</td>
<td>4,693</td>
<td>3,126</td>
<td>50%</td>
</tr>
<tr>
<td>Securities in issue</td>
<td>733</td>
<td>1,146</td>
<td>36%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16,561</strong></td>
<td><strong>17,274</strong></td>
<td><strong>-4%</strong></td>
</tr>
</tbody>
</table>

These items include the various types of interbank funds and with clients, as well as funding operations carried out through bonds.

4.1.6 **Financial liabilities held for trading**

This item, totalling 1,685 million includes only derivatives with a negative fair value, not designated as hedging instruments.

4.1.7 **Provisions for risks and charges and severance indemnities**

The breakdown of provisions at 30 June 2017 was as follows:

<table>
<thead>
<tr>
<th>IAS category</th>
<th>30/06/2017</th>
<th>31/12/2016</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for severance indemnities</td>
<td>2</td>
<td>2</td>
<td>0%</td>
</tr>
<tr>
<td>Provisions for risks and charges</td>
<td>31</td>
<td>34</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>33</strong></td>
<td><strong>36</strong></td>
<td><strong>8%</strong></td>
</tr>
</tbody>
</table>

4.1.7.1 **Provisions for severance indemnities (TFR)**

The liability relating to severance indemnities is recognised on the balance sheet on the basis of the actuarial value of the same (1.5 million), determined by an independent actuary, on the basis of financial and actuarial assumptions, also taking into account the actuarial gains or losses. These are recognized in the accounts under other comprehensive income components reclassified in a specific shareholders’ equity valuation reserve, as provided for in the accounting standard IAS 19, as updated from 1 January 2013.

4.1.7.2 **Provisions for risks and charges**

Provisions for risks and charges consist of “post employment benefits” and “other
provisions”.

“Post employment benefits,” amounted to 0.2 million and relate to provisions - recognised on the basis of the accounting standard IAS 19 as “Employee benefits” - against various forms of complementary defined-benefit pension schemes. These commitments are based on calculations carried out by independent actuaries using the projected units credit method. In particular, the provisions are the same as the current value of the obligation with defined benefits net of the fair value of the fund’s assets and having taken into consideration the actuarial profits and losses recognised in the accounts among other comprehensive income components reclassified to a specific shareholders’ equity valuation reserve, following the aforesaid update of IAS 19.

“Other provisions” consist of the following: 1.7 million for costs of employee seniority bonuses, for life assurance benefits and for the agreement on voluntary redundancy incentives and access to the solidarity fund signed by the company with certain Trade Unions on 24 June 2009 and for the amount set aside in relation to the staff reduction plan signed with the Trade Unions on 18 March 2015; 2.4 million for legal costs for current litigation with Local Administrations; 9.3 million for the legal risk of disputes over two positions with local authorities (see section 4.4 for more details on these disputes); 0.8 million for tax expenses set aside during the first half of 2011; 16.9 million relating to the proceedings in progress regarding the Istituto per il Credito Sportivo.

4.1.8 Shareholders’ equity

Shareholders’ equity at 30 June 2017, including profits for the period, totalled 953 million and consisted of the following:

<table>
<thead>
<tr>
<th>Items/Amounts</th>
<th>30/06/2017</th>
<th>31/12/2016</th>
<th>Changes of the period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>450</td>
<td>450</td>
<td>0%</td>
</tr>
<tr>
<td>Reserves</td>
<td>519</td>
<td>503</td>
<td>3%</td>
</tr>
<tr>
<td>Valuation reserves</td>
<td>(29)</td>
<td>(25)</td>
<td>16%</td>
</tr>
<tr>
<td>Net profit (Loss)</td>
<td>13</td>
<td>16</td>
<td>-19%</td>
</tr>
<tr>
<td>Total</td>
<td>953</td>
<td>944</td>
<td>1%</td>
</tr>
</tbody>
</table>

4.1.8.1 Capital and Reserves

The share capital is fully subscribed and paid up and amounts to 450 million, consisting of 174,500,000 ordinary shares with a unit face value of € 2.58.

Reserves at 30 June 2017 amounted to 519 million. The increase during the half can be attributed to the profits for the period, partially reduced by the effect of valuation reserves.

4.1.8.2 Valuation reserves

Valuation reserves at 30 June 2017 totalled -28.7 million of which +10.6 million deriving from measurement at fair value of Cash Flow Hedging (CFH) operations, -32.3 million deriving from measurement at fair value of financial assets available for sale (AFS) and -7 million deriving from actuarial valuation of defined benefit schemes.
Changes in valuation reserves over the half were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Reserve for cash flow hedging</th>
<th>Reserve, financial assets available for sale</th>
<th>Reserve for defined benefit schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Opening balances</td>
<td>18</td>
<td>(33)</td>
<td>(9)</td>
</tr>
<tr>
<td>B. Increases</td>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>C. Decreases</td>
<td>7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D. Closing balances</td>
<td>11</td>
<td>(32)</td>
<td>(7)</td>
</tr>
</tbody>
</table>

For valuation reserves of financial assets available for sale, we add the contribution of various categories of financial instruments booked to the portfolio in question.

<table>
<thead>
<tr>
<th>VALUATION RESERVE</th>
<th>Debt securities</th>
<th>Equity securities</th>
<th>Mutual fund shares</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Opening balances at 31/12/2016</td>
<td>(35)</td>
<td>1</td>
<td>0</td>
<td>(34)</td>
</tr>
<tr>
<td>2. Increases</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Decreases</td>
<td>2</td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>4. Closing balances at 30/06/2017</td>
<td>(33)</td>
<td>1</td>
<td>0</td>
<td>(32)</td>
</tr>
</tbody>
</table>
4.1.9 **Own Funds**

Common Equity Tier 1 (CET1) was calculated on the basis of the balance sheet and income statement figures, determined in accordance with the IAS/IFRS international accounting standards and taking into account the rules laid down by the Bank of Italy in accordance with the new Basel 3 regulations. In particular, CET1 includes, as positive elements: paid-up equity and profit reserves; negative elements include: intangible assets and valuation reserves. There are no additional TIER 1 funds.

Tier 2 capital consists of valuation reserves and surpluses from writedowns with respect to expected losses.

With reference to valuation reserves relating to debt securities issued by the central governments of countries in the European Union included in the “financial assets available for sale” portfolio, after ECB Regulation 2016/445 took effect in October 2016 significant banks must include or deduct from CET1, respectively, unrealised profits and losses deriving from exposures to central governments classified within the AFS portfolio, at 60% in 2016 and at 80% in 2017. The residual amounts remaining after this rate is applied (40% in 2016 and 20% in 2017), must not be included when calculating shareholders’ equity, and continue to be sterilised.

<table>
<thead>
<tr>
<th>Description</th>
<th>Total at 30/06/2017</th>
<th>Total at 31/12/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Common Equity Tier 1 - CET1 before application of prudential filters</strong></td>
<td>966</td>
<td>950</td>
</tr>
<tr>
<td>of which CET1 instruments subject to transitional provisions</td>
<td>(39)</td>
<td>(43)</td>
</tr>
<tr>
<td><strong>B. CET1 prudential filters (+/-)</strong></td>
<td>927</td>
<td>907</td>
</tr>
<tr>
<td><strong>C. CET1 gross of elements to be deducted and effects of the transitional regime (A +/-B)</strong></td>
<td>927</td>
<td>907</td>
</tr>
<tr>
<td><strong>D. Elements to be deducted from CET1</strong></td>
<td>(1)</td>
<td>(3)</td>
</tr>
<tr>
<td><strong>E. Transitional regime - Impact on CET1 (+/-), including minority shareholdings subject to transitional provisions</strong></td>
<td>926</td>
<td>904</td>
</tr>
<tr>
<td><strong>F. Total Common Equity Tier 1 (TIER1 - CET1) (C - D +/- E)</strong></td>
<td>943</td>
<td>962</td>
</tr>
<tr>
<td><strong>G. Additional Tier 1 (AT1) gross of elements to be deducted and effects of the transitional regime</strong></td>
<td>17</td>
<td>58</td>
</tr>
<tr>
<td>of which AT1 instruments subject to transitional provisions</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>H. Elements to be deducted from AT1</strong></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>I. Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 Due to transitional provisions</strong></td>
<td>17</td>
<td>58</td>
</tr>
<tr>
<td><strong>L. Total Additional TIER 1 (AT1) (G-H+/-I)</strong></td>
<td>943</td>
<td>962</td>
</tr>
<tr>
<td><strong>M. Tier 2 (T2) gross of elements to be deducted and effects of the transitional regime</strong></td>
<td>17</td>
<td>58</td>
</tr>
<tr>
<td>of which T2 instruments subject to transitional provisions</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>N. Elements to be deducted from T2</strong></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>O. Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to transitional provisions</strong></td>
<td>17</td>
<td>58</td>
</tr>
<tr>
<td><strong>P. Total Tier 2 (T2) (M - N +/- O)</strong></td>
<td>943</td>
<td>962</td>
</tr>
<tr>
<td><strong>Q. Total shareholders’ equity (F + L + P)</strong></td>
<td>943</td>
<td>962</td>
</tr>
</tbody>
</table>
4.1.10 Other asset and liability items

The “Hedging derivatives” items among assets (item 80) and liabilities (item 60) on the Balance Sheet at 30 June 2017, respectively 246 million and 2,763 million, include the positive and negative values of derivatives which are part of effective hedging operations.

The types of hedging used are the following:

- fair value hedges, performed with the aim of hedging the exposure to changes in the fair value of assets/liabilities recognised in the accounts;
- cash flow hedges, performed with the aim of hedging the exposure to changes in cash flows of assets/liabilities recognised in the accounts or of highly probable future transactions.

In the case of fair value hedging, any changes in the value of the hedging instruments and the hedged instruments (as regards the part attributable to the hedged risk and when the hedge is effective) are booked to the Income Statement. The differences between the changes in value constitute the partial ineffectiveness of the hedge and lead to a net impact in the Income Statement, recognised under item 90. In the case of generic hedging, changes in the fair value of the element hedged are booked to the specific item of the assets (item 90 Fair Value Adjustment of Financial Assets in Hedged Portfolios) and liabilities in the annual report (item 70 Fair Value Adjustment of Financial Assets in Hedged Portfolios) in accordance with the instructions in IAS 39, paragraph 89A.

At 30 June, the said value adjustment involved only financial assets and totalled 2.7 million.

This procedure is also applied if hedged financial assets are booked in the “Available for Sale” portfolio.

For cash flow hedges, fair value is recognised with a matching entry in the specific Shareholders’ Equity reserve (at 30 June 2017 equal to 11 million), while the assets or liabilities covered by the hedge are not subjected to a similar change in value.

4.2 Economic performance

Below we provide a description of the economic progress of Dexia Crediop in the first half of 2017 on the basis of the reclassified Income Statement. For an analysis of the results by economic sector please refer to section 4.6.12.

4.2.1 Net interest

Net interest in the first half of 2017 amounted to 29 million, compared with 2 million at 30 June 2016. This item is made up of net interest income (interest income and expenses) and the net hedging gains (losses).

Net interest income came to 18 million at 30 June 2017, down by 9 million with respect to the same period the previous year, following both amortisation of stock and disposals of assets, as well as liquidity management operations put into place at the end of 2016.
Net hedging gains totalled 11 million at the end of June 2017, compared with losses of 25 million in the first half of 2016. This result relates to the difference in the change in fair value of hedged instruments and hedging instruments in relation to the risk component hedged. In particular, this result suffers from the measurement of collateralised hedging derivatives using the OIS curve, compared to the valuation of the hedged instruments on the basis of Euribor curve, in application of the IFRS.

4.2.2 **Net fee and commission income**

Net fee and commission income at 30 June 2017 totalled -17 million, a decrease with respect to the +1 million seen during the same period the previous year, substantially due to fee and commission expense accruing on the new credit line guaranteed by the parent company Dexia Crédit Local in the amount of 3.5 billion.

4.2.3 **Dividends and similar income**

In the first half of 2017 no dividends were received, as in the same period of the previous year.

4.2.4 **Net trading gains (losses)**

Net trading gains at 30 June 2017 totalled 20 million, compared to losses of 18 million in the first half of 2016. This consists of two items, “Net Trading Gains (Losses)” and “Gains (Losses) on Disposal or Repurchase”.

In particular, net trading gains (losses) expresses the fair value measurement, inclusive of the correction estimated for the credit risk, of the trading portfolio comprising exclusively derivatives.

From an operational point of view this portfolio is not exposed to interest-rate risk due to balanced broking with the main counterparties; but the related positions are affected by the estimated correction for credit risk.

For the collateralised derivatives, the Credit Value Adjustment (CVA) is also taken into account and speculatively also the risk associated with our own creditworthiness, the so-called Debit Value Adjustment (DVA).

Additionally, for solely non-collateralised derivatives, the Funding Value Adjustment (FVA) is also taken into account, which reflects the cost of funding associated with these derivatives.

The positive result seen in the first half is mainly thanks to an improvement in the Credit Value Adjustment (CVA) of the bank’s non-collateralised derivatives, as well as in the Funding Value Adjustment (FVA). More specifically, the CVA figure benefited from the increase in the ratings of certain local authorities following lower credit spreads, as well as the increase in interest rates.

There are no gains (losses) on disposal or repurchase during the first half of 2017, compared to the positive 0.01 million seen in the first half of 2016, following the sale of a notional
60 million of securities.

4.2.5  *Net interest and other banking income*

Net interest and other banking income at 30 June 2017 came to +32 million, compared with -15 million at 30 June 2016 as a result of the above trends.

4.2.6  *Net adjustment for impairment*

Net writebacks for impairment came to around 2 million, deriving from a reduction in lump sum provisions following the amortisation of exposures falling within the scope of the calculation.

4.2.7  *Net income from financial activities*

Following the quantification of the amounts described above and their progress, net income from financial activities at 30 June 2017 totalled +34 million compared to -15 million at 30 June 2016.

4.2.8  *Operating costs*

Administrative expenses amounted to 19.5 million, showing a decrease which derived in part from the contribution to the European Single Resolution Fund. Specifically, this contribution came to €7.2 million (as well as 1.3 million as an irrevocable commitment), compared to the €10.5 million in the first half of 2016. Not taking this charge into account, the total for administrative expenses came to 12.3 million, lower with respect to the corresponding period the previous year by around 0.8 million, following the decrease in expenses for IT services and other general expenses.

Personnel expenses totalled 6.7 million, a decrease of 0.2 million over the first half of 2016.

Net provisions for risks and charges in the first half of 2017 amounted to 0.6 million, compared to 9 million in the first half of 2016, the latter related to disputes on two existing positions with public sector entities.

Net writedowns on tangible and intangible assets amounted to 1 million, with no substantial changes compared with the same period of the previous year.

Other operating expenses and income in the first half of 2017 amounted to 0.1 million, substantially in line with the same period of 2016.

Hence, total operating costs amounted to 20 million, compared with 33 million at 30 June 2016.

4.2.9  *Profit (Losses) on disposal of investment*

In the period under consideration, no profits were seen from sales of investments,
compared to the 1 million registered in the first half of 2016, following the sale of a property in Naples.

4.2.10 Profit (loss) from continuing operations before tax

Due to that described above, Dexia Crediop profit from continuing operations before taxes at 30 June 2017 totalled 14 million, with respect to 47 million in the first half of 2016.

4.2.11 Income tax for the period on continuing operations

Taxes for the first half of 2017 totalled 1 million, compared with 0 in the corresponding period of the previous year.

4.2.12 Net profit (Loss) for the period

Net profit at 30 June 2017 totalled 13 million, compared to the loss of 47 million at 30 June 2016.

4.3 Comments on risks and hedging policies

4.3.1 Credit risk

Recall that, as of 15 July 2014, the European Commission confirmed the run-off management of Dexia Crediop. Therefore, as of said date, Dexia Crediop can no longer establish any new operational loan transactions.

4.3.1.1 Credit risk management policies

Credit risk is the risk of loss linked to the counterparties’ incapacity to honour their financial obligations. The factors which influence the level of this risk are:

- the counterparty’s creditworthiness, measured by means of an internal rating (determined on the basis of specific models);
- the customer segment concerned (public sector, corporate, project finance, banking and financial sector, etc.);
- the economic, legal and financial context in which the counterparty operates;
- the type of operation carried out;
- the duration of the operations;
- any guarantees (real, personal, financial) backing the operation.

It should be highlighted that almost all the existing exposure regards customers of the public sector, with a moderate risk level and also subject to particular controls linked to their public nature. Credit risks (such as operative and market risk) are monitored by the Risk Department, divided up into three “line” functions - Credit Risk, Operational Risk & Security, and Market Risk - that ensure monitoring of the respective risk categories and activities aimed at the computerisation of the new strategic processes in relation to the Risk applications.

The Risk Department has no hierarchical relationship with the Bank’s COUs. The department therefore operates absolutely independently from the Front Office units.
Specific Coordination Groups/Committees form an integral part of the internal auditing systems, helping to ensure that the system works correctly.

The Lending Committee’s task is to examine materials related to existing loan proposals of any technical type. The Committee makes decisions regarding risk and financial conditions on the basis of proposals from the relevant COU, an opinion provided by Risk in regard to risk and, finally, an opinion (for “non standard” operations) containing legal assessments provided by the General and Legal Secretariat. The Default Watchlist Coordination Committee examines situations falling within the criteria of defaults as established by the Supervisory Authorities and by Dexia Group policies.

4.3.1.2 Measuring and audit systems

As regards the methods of management, measuring and auditing, certain guidelines have been fixed at Group level.

The Dexia Group has developed internal rating systems (IRS) for the various counterpart types, including: Corporate, Project Finance, the Local Public Sector (LPS) of western Europe, “Public Satellites”, “Private Satellites”, Sovereign Banks.

The internal rating system (IRS) defined on the basis of the most advanced methods (Advanced IRBA) involves:

- the adoption of internal procedures which allow for the calculations by and historical documentation of the IRSs;
- the progressive development of an informational system (FERMAT) aimed at consolidating - in a common standardised form - information relating to all counterparties (Client Database) and exposures (Exposure Database) of the Group. In particular, the upgrade of FERMAT to the DMV5 version to adjust it to the SA-CCR regulatory norms for derivatives has been completed and updating to implement the new IFRS 9 regulations is at an advanced stage. Implementing the system to supply data to FERMAT provided, among other things, an improvement in reporting quality;
- the adoption of a system for measuring the Bank’s entire risks on the basis of an approach based on its own economic resources.

To that end, we recall that during 2014 the new Risk & Capital Adequacy (RCA) approach developed by the Dexia Group was adopted, which changed the risk assessment methods (ECAP models) that had previously been used. The new framework became operational starting from the ICAAP report sent to the Bank of Italy during the first half of 2014 and relating to the financial situation as at 31 December 2013.

4.3.1.3 Credit risk mitigation techniques

As concerns operations in derivatives, the ISDA Master Agreement is accompanied by the Credit Support Annex (CSA) for almost all banking counterparties: this collateralisation agreement minimises the credit risk through the regular (daily, weekly or monthly) exchange of margins as a guarantee of the net value of the bilateral exposure.
The forms of real guarantees used are essentially pledges (mainly on securities) and much less frequently mortgages on properties. The management of these guarantees is the task of the administrative and legal COUs.

The counterparties offering personal guarantees are general banks and local or regional governments. The credit risk of these counterparties is assessed on the basis of the external and internal ratings attributed to them.

The purchase of credit derivatives is not normally used as a mitigation technique, although it is permissible.

Since lending activities were mainly aimed at the domestic public sector, the majority of guarantees backing loans consist of the issue of payment notes issued by local entities or the debt service provided by the Italian State.

4.3.1.4 Impaired financial assets

Dexia Crediop has issued specific rules governing the treatment of non-performing loans and actions to be taken in order to manage such loans so as to ensure that the procedures aimed at a positive outcome are implemented correctly.

These rules define the general guidelines within which the individual organisational units treat this subject within the scope of their own responsibilities.

The various conditions of each non-performing loan have been classified within the scope of an internal watchlist consisting of four categories with an ascending scale of seriousness:

- watchlist exposures;
- impaired past-due and/or over-the-limit exposures;
- unlikely to pay;
- non-performing loans.

The Default Watchlist Coordinating Committee is responsible for examining the non-performing positions and proposes:

- their classification in one of the four categories;
- the adoption of specific writedowns on the loans;
- the adoption of statistical or flat-rate adjustments which reflect the Expected Loss.

Transactions which previously included in the default/watchlist categories are re-classified as “performing” when the counterparty emerges from a situation of economic/financial difficulty and returns to making all payments regularly as before.

Note that activities of the Dexia Crediop have never involved the execution of operations to acquire impaired assets.

4.3.1.5 Credit quality

Impaired assets include exposures to single debtors that fall within the category of “non-performing” as defined in Execution Regulation (EU) No. 680/2014 of the Commission and
subsequent amendments and additions (Implementing Technical Standards). Impaired financial assets are divided into the categories of non-performing, unlikely to pay, impaired past-due and/or over-the-limit exposures.

At 30 June 2017, financial assets are divided into impaired assets and performing assets as follows:

<table>
<thead>
<tr>
<th></th>
<th>Impaired assets</th>
<th>Unimpaired financial assets</th>
<th>Total (net exposure)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gross exposure</td>
<td>Specific adjustments</td>
<td>Portfolio adjustments</td>
</tr>
<tr>
<td>30/06/2017*</td>
<td>58</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>31/12/2016</td>
<td>62</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

* The impaired and unimpaired assets include exposures with forbearance measures (Forborne exposures), respectively for 1.6 million and 2 million.

The table makes it possible to note the high quality of the bank’s assets. In fact, gross impaired assets represent only 0.29% of the total loans due from customers, loans due from banks, of financial assets available for sale, and financial assets held to maturity. These assets include exclusively a limited number of positions, since they are exposures regarding parties that are in a state of insolvency or temporary difficult (or in substantially equivalent situations). With reference to these loans, which objectively show evidence of a durable loss of value, an analytical valuation is carried out by the appropriate company organisational unit. Loans which do not show any objective evidence of impairment or for which no impairment is forecast are assessed collectively, by grouping them together in homogeneous categories with similar characteristics in terms of credit risk, such as the technical form of the loan, the economic sector the counterparties belong to, their geographical location and the type of existing guarantees.

Below are the changes in impaired assets which occurred during the six month period in question:

**Trend in gross non-performing exposures**

<table>
<thead>
<tr>
<th>Reasons/Categories</th>
<th>Non-performing loans</th>
<th>Unlikely to pay</th>
<th>Past due impaired exposures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening gross exposure</td>
<td>1</td>
<td>57</td>
<td>4</td>
</tr>
<tr>
<td>Increases</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decreases</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing gross exposure</td>
<td>1</td>
<td>53</td>
<td>4</td>
</tr>
</tbody>
</table>

**Trend of total writedowns**

<table>
<thead>
<tr>
<th>Reasons/Categories</th>
<th>Non-performing loans</th>
<th>Unlikely to pay</th>
<th>Past due impaired exposures</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Total initial adjustments</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Increases</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decreases</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total closing adjustments</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

4.3.1.6 Administrative, judicial, and arbitration procedures

Below we provide information about the most important legal proceedings in progress
which could have, or recently have had, repercussions for Dexia Crediop’s financial position and/or profitability.

Since 2009, the year in which some territorial and local authorities began to dispute derivative transactions concluded with Dexia Crediop, Dexia Crediop has been successful in a number of cases and proceedings relating to the Province of Pisa, the Municipality of Florence and the Regions of Apulia, Tuscany, Lazio and Piedmont.

On 23 December 2010, the Lazio Region served Dexia Crediop with a writ of summons before the Civil Court of Rome. The deed concerned transactions in derivatives entered into with the Lazio Region; in addition to Dexia Crediop, a further 14 banks were summoned to appear. The Lazio Region demanded that Dexia Crediop pay compensation for damages it alleges having suffered, for an amount of approximately 8.5 million. On 26 June 2017, Dexia Crediop and the Lazio Region signed a settlement agreement that envisages full recognition by the Lazio Region of the validity and efficacy of the swap contracts from the time of origin.

On 31 December 2010, the Municipality of Prato, through a self-protection measure, reversed its own resolution regarding an interest rate swap signed on 29 June 2006 with Dexia Crediop in relation to two floating-rate bonded loan contracts entered into with Dexia Crediop. As an effect, the Municipality has not paid the associated netting, for an amount totalling around 12 million at present.

Dexia Crediop initiated an action before the civil courts in England to obtain a ruling on the validity and effectiveness of the contract and the fulfilment by the municipality of its own obligations.

With a ruling on 25 June 2015, the High Court/Commercial Court established that the swap operations do not constitute debt and were concluded in full compliance with article 119 of the Italian Constitution, of article 41 of Italian Law no. 48/2001 and article 3 of Ministerial Decree 389/2003. However, the High Court/Commercial Court declared the contracts null and void due to the absence within the contract of the Municipality of Prato’s right to withdrawal (pursuant to article 30 of the Consolidated Finance Act). With a further sentence on 10 November 2016, the High Court/Commercial Court also issued a judgement on some requests put forward by parties who were not included in the sentence of 25 June 2015.

The appeal of these sentences put forward by both parties was heard in May 2017. With a ruling issued on 15 June 2017, the Court of Appeal fully accepted Dexia Crediop’s appeal, stating that (i) the derivatives contracts subscribed by the Municipality of Prato and Dexia Crediop between 2002 and 2006 are fully valid and effective; (ii) the Municipality of Prato had full ability to sign the derivatives contracts; (iii) the margin applied by the bank in the swap operations was necessary to cover the expected risks and costs, also clarifying the unfounded concept of “implicit costs”. The Municipality of Prato was also ordered to reimburse the legal expenses suffered by Dexia Crediop in the two court cases, as well as payment of interest on arrears on netting not paid from 2010 to the present. The Court of Appeal also rejected the Municipality of Prato’s request to appeal to the Supreme Court.

The criminal judgement, aimed at verifying whether the crime of fraud had been committed in relation to the swap operations carried out with the Municipality of Prato between 2002 and 2006, was issued on 31 May 2017. The Criminal Court of Prato fully exonerated a former employee of Dexia Crediop and Dexia Crediop itself.

Dexia Crediop also launched legal action in Italy before the Regional Administrative Court of Tuscany, in order to obtain the cancellation of the above-mentioned self-protection measure,
which ended in favour of Dexia Crediop, with a ruling dated 24 November 2011.

The Municipality of Prato then initiated a second self-protection measure, aimed at verifying the validity of the tender called by the Municipality to select its advisor (Dexia Crediop) in 2002 and the subsequent restructuring operations of swaps prior to the one in 2006. On 19 April 2012, the Municipality of Prato passed a resolution cancelling the tender on grounds of self-protection. On 19 May 2012, Dexia Crediop lodged an appeal against that resolution, with the Regional Administrative Court of Tuscany in order to obtain the cancellation of that self-protection measure. The litigation ended in favour of Dexia Crediop, with a ruling handed down on 21 February 2013. The Regional Administrative Court of Tuscany, reaffirmed, amongst other things, the points it had already made in its ruling dated 24 November 2011: the jurisdiction of the civil courts (in this case, the English courts) when the dispute concerns a contract entered into by the Public Administration _iure privatorum_. On 21 May 2013, the Municipality served a writ to Dexia Crediop for its appeal to the Council of State against the above ruling. At present, the date for the hearing has not yet been set.

On 23 December 2013, Dexia Crediop was served with a writ of summons by the Municipality of Prato, with which the Municipality summoned the bank to appear before the Civil Court of Prato requesting the cancellation – and a declaration of ineffectiveness between the parties – of the ISDA framework agreement and the related Schedule signed by the Municipality of Prato with Dexia Crediop. With ruling no. 771/2015, filed on 30 June 2015, the Civil Court of Prato, accepting Dexia Crediop’s objections, declared that the Italian court had no jurisdiction, and that instead the English courts had jurisdiction.

On 14 April 2011, the **Municipality of Messina** served Dexia Crediop with a writ of summons before the Civil Court of Messina. The writ concerns two derivative transactions entered into by the Municipality of Messina on 28 June 2007 to which Dexia Crediop is party, along with another bank. The Municipality of Messina demanded the nullity of the contracts with regards to Dexia Crediop or alternatively that they be declared cancelled. On 11 January 2017, the Civil Court of Messina, after the issuing of the Supreme Court judgement on 23 October 2014, which declared that the Italian civil and administrative Courts lacked jurisdiction in favour of the English courts, and as was also determined by the Regional Administrative Court of Sicily on 10 July 2015, in the dispute related to the self-protection measure with which the Municipality annulled the resolution related to the derivative operations carried out, declared it lacked jurisdiction with judgement 48 of 11 January 2017.

Given the application on potential financial insolvency filed by the City of Messina, a provision was made equivalent to the currently unpaid netting amount. The amount allocated was 5.1 million the previous year, with 0.4 million added in the half in question.

On 23 July 2012, the **Municipality of Ferrara**, with a self-protection measure, cancelled all the acts which had led to the approval of the swap contracts signed with Dexia Crediop in 2005. As an effect, the Municipality has not paid the associated netting, for an amount totalling around 6 million at present. On 8 October 2012, Dexia Crediop lodged an appeal with the Regional Administrative Court of Emilia Romagna against the self-protection measures adopted by the Municipality. On 15 December 2015, the Regional Administrative Court of Emilia Romagna ascertained that the Italian court lacked jurisdiction (both administratively and civilly), in favour of the English courts and, therefore, declared itself unable to rule on the issue. Dexia Crediop also initiated legal action in England, aimed at ascertaining the validity and effectiveness of this swap contract. The case within the English courts was suspended by request of the parties on 2 October 2015 until 30 days after the filing, by the London Court of Appeal (on 15 June 2017) of the ruling.
related to the appeal of the dispute between Dexia Crediop and the Municipality of Prato. The Municipality requested an additional extension of the suspension of the dispute.

On 5 July 2012, Dexia Crediop initiated legal action in England, aimed at ascertaining the validity and effectiveness of the swap contracts, signed by Dexia Crediop and the Province of Crotone in December 2007. On 11 May 2015, the High Court/Commercial Court filed its ruling, which established: (i) that the swap contracts are valid, effective and binding ab origine; and (ii) an order for the Province of Crotone to repay the legal expenses incurred by Dexia Crediop in the proceeding. On 2 March 2017, Dexia Crediop also received a declaration recognising and rendering enforceable the English ruling in Italy.

On 22 November 2012, following a letter sent by the Municipality of Forlì in which the Municipality identified critical issues in the derivatives contracts concluded with Dexia Crediop, the latter initiated a legal action in England, aimed at ascertaining the validity and efficacy of the swap contracts. Despite the complaints raised by the Municipality and the consequent civil action launched by Dexia Crediop in England, the Municipality is paying the nettings payable under the terms of the Interest Rate Swap contract. With an Order issued on 25 June 2014, the English Court upheld the request filed by Dexia Crediop and suspended the proceedings indefinitely.

With Executive Decree No. 5 of 1 March 2013, the Campania Region called for tenders for the selection of contractual and financial technical/legal analysis and assessment services in relation to the swap contracts entered into by the Campania Region in the period 2003-2006 with the aim of checking for the presence of any anomalies. Dexia Crediop therefore initiated proceedings before the civil court in England, aimed at ascertaining the validity and efficacy of the contract signed with the Campania Region on 10 October 2003. After a request by the Campania Region, Dexia Crediop agreed to suspend the case until 12 January 2018. The Region is meanwhile providing for payment of the netting due under the swap contracts.

On 31 December 2015, Dexia Crediop initiated legal action in England, aimed at ascertaining the validity and effectiveness of two swap contracts, signed by Dexia Crediop and the Province of Milan in 2002 and 2005. On 17 June 2016, the High Court/Commercial Court issued a judgement which stated that the swap contracts were valid, effective and binding ab origine, and condemned the Metropolitan City of Milan to reimburse the legal expenses incurred by Dexia Crediop in the proceedings in question.

On 31 May 2006, Dexia Crediop and the Province of Brescia signed an advisory agreement related to the active management of liabilities (including derivative financial instruments) of the Province. Subsequently, Dexia Crediop and the Province of Brescia signed two swap contracts on 28 June 2006. Meanwhile, on 18 March 2016, the Province of Brescia served Dexia Crediop a summons before the Civil Court of Rome concerning the request for damages arising from an alleged breach of obligations by Dexia Crediop arising under the advisory contract. The case is in course. The most recent hearing was on 8 May 2017. The judge waited to decide on Dexia Crediop’s request to suspend the civil case while awaiting the Supreme Court’s ruling on the preventive jurisdiction case brought by Dexia Crediop.

On 21 April 2016, Dexia Crediop initiated legal action in England, aimed at ascertaining the validity and effectiveness of the swap contracts, signed with the Province of Brescia. With a sentence dated 21 December 2016, the High Court of Justice rejected the objection of lack of declaration made by the Province of Brescia and, consequently, ordered the Province of Brescia to
reimburse Dexia Crediop for the legal expenses it had sustained. The case with the High Court/Commercial Court is proceeding and Dexia Crediop has also begun another proceedings with the English legal authorities in London to quantify the legal expenses that the Province will have to reimburse.

Below we note the most important ongoing proceedings, other than derivatives disputes.

With Decree of the Italian Ministry of Economy and Finance of 28 December 2011, issued on the proposal of the Bank of Italy in accordance with Art. 70 (1) of the Consolidated Law on Banking, the Istituto per il Credito Sportivo ("ICS"), was subjected to a receivership procedure which, with subsequent extensions, was still in progress on the date this document was prepared. Within the scope of the commissioner activities, the special commissioners have questioned the legal status of a fund contributed by the State, disputing the distribution of profits to investors and the ICS Bylaws in effect in 2005. In November 2012, the Prime Minister's Office, at the request of the special commissioners, launched administrative proceedings aimed at cancelling the articles of association of the ICS in force at the time (approved with ministerial decree of 2 August 2005), as a self-protective measure, which came to an end on 6 March 2013 with the issuing of an inter-ministerial decree cancelling the deeds issuing the ICS Bylaws. That Decree gave rise to a complex sequence of legal actions involving, on the one side, Dexia Crediop and the other private partners of ICS and, on the other side, the supervising Ministries and the Special Commissioners of ICS.

The legal actions of an administrative nature referred to the cancellation, for self-protection, of the 2005 Bylaws of ICS, the cancellation and re-calculation of the dividends distributed by ICS under the financial statements from 2005 to 2010, the inter-ministerial directive adopted on 8 August 2013 with the guidelines for the new Articles of Association of ICS and the new Articles of Association enacted through the Inter-ministerial Decree of 24 January 2014. Under the new Bylaws, the funds provided by the state and by CONI – with a retroactive calculation from the establishment of ICS in 1957 – were charged in full to the ICS Capital/Endowment Fund and so the Italian Ministry of Economy and Finance was indicated as a new capital stakeholder and the capital reserves established over the years were attributed to the Capital/Endowment Fund and divided among the new capital stakeholders. The stake in the capital, including the previous capital reserves, that the new Bylaws assigned to Dexia Crediop amounted to 3.11% (previously 21.622%) with an equivalent value of about 26 million. As a consequence of the new ICS Bylaws, Dexia Crediop decided, for precautionary purposes while awaiting the definition of the disputes in course, to adjust the value of the equity investment, recognised among AFS equity securities, to the fraction of share capital corresponding to the percentage stake assigned within the new Bylaws, equal to around 26 million.

In the context of legal disputes in the administrative courts, note the Council of State ruling filed on 21 September 2015, which rejected the appeal made by Dexia Crediop and other private shareholders of ICS, declaring the legitimacy of the inter-ministerial decree annulling the implementation of the 2005 ICS Bylaws for self-protection, and confirming the ruling of the Regional Administrative Court of Lazio for which, in regards to the annulment of the resolutions to distribute profits, it has jurisdiction to determine the ordinary civil case.

The legal actions taken in the civil courts refer to the request made by the Extraordinary Commissioners of ICS in the second half of 2013, for the restitution of the dividends received in the period 2005-2010 in excess of the minimum dividend established under the former Bylaws enacted in 2002 (amount requested: 16.9 million); facing that an allocation was made in the same amount to the provision for risks and charges.
On 22 May 2012 and 5 June 2012 Dexia Crediop purchased certified healthcare receivables in respect of various hospitals of Lazio from the “Italian Province of the Congregation of the Children of the Immaculate Conception” (“Provincia Italiana della Congregazione dei Figli dell’Immacolata Concezione” - PICFIC), including the Rome E Health Trust. The receivables referred to above from the Rome E Health Trust were found to be partially subject to previous seizures. Despite the certification, the Rome E Health Trust did not proceed with the payment of the assigned receivables for about 3.8 million; against this background a provision for legal risks of equal value was set aside already in the previous year. Dexia Crediop, therefore, with an appeal pursuant to Art. 702 of the Code of Civil Procedure summoned before the Civil Court of Rome the Rome E Health Trust, and the Lazio Region in order to obtain, among other things, an order to pay the receivables not yet received. With an order filed with the clerk of the court on 4 February 2014, the Civil Court of Rome rejected Dexia Crediop’s pleas. With an appeal lodged on 5 March 2014, Dexia Crediop challenged the said order before the Rome Court of Appeal. The case is in course.

On 30 October 2012, PICFIC was admitted to the procedure for a composition agreement pursuant to article 161, paragraph 6 of Royal Decree 267/1942. This was converted on 29 March 2013 to an receivership procedure pursuant to Decree Law 347/2003 (converted with Law 39/2004).

On 5 April 2016, PICFIC served Dexia Crediop a writ of summons in the Civil Court of Rome concerning the revocation of the credit assignment deeds of 22 May 2012 and 5 June 2012 and, the request to condemn Dexia Crediop to pay PICFIC a sum equal to the nominal value of the transferred receivables. The case is in course.

On 23 December 2003, Dexia Crediop, in a pool with another bank, signed a loan contract with the company Livorno Reti e Impianti S.p.A. (LIRI) (currently in voluntary liquidation, begun in August 2014) which is 100% controlled by the Municipality of Livorno. On 18 July 2016, LIRI called Dexia Crediop before the Civil Court of Rome, claiming (i) the existence of an implicit derivative in the loan contract, (ii) the presence of implicit costs and (iii) the violation inter alia of the requirements of proper conduct and good faith foreseen in the regulations governing banks. The case is in course. The most recent hearing was on 12 June 2017.

Developments in legal disputes have not led to a need to make new provisions for risks and charges at 30/06/2017, with the exception of that related to the increase in netting unpaid by the Municipality of Messina.

4.3.1.7 Tax proceedings

In relation to the dispute about direct taxes relating to the 2008 tax period a provision of 0.8 million was set aside.

4.3.2 Interest-rate risk

4.3.2.1 Management and measurement of interest-rate risk

Measurement and control of interest rate risk, as well as those related to market risks in general are the responsibility of Market Risk and Financial Strategy (the latter with regard to the banking book in the medium and long term).
The main interest-rate risk indicators measured and controlled are the following:

- Shift Sensitivity of fair value;
- Value at Risk (VaR).

The shift sensitivity of fair value quantifies the variation in the portfolio value consequent to parallel and instantaneous increases of the market interest rate curves.

The VaR is defined as the maximum potential loss caused by possible adverse movement in market interest rates, with reference to a confidence level of 99% and a holding period of 10 working days.

Periodic scenario analyses are also carried out periodically to measure the impact on the value of the portfolios monitored, by a series of non-parallel instantaneous shocks in the market interest rates.

The internal model is not used to calculate the capital requirements for market risks.

### 4.3.2.2 Regulatory trading book

The portfolio is made up exclusively of derivatives, mainly Interest Rate Swaps, almost all of which are in balanced brokering. The underlying operations, for the most part, regard the management of the medium/long-term debt, represented by loans or securities, of public customers, and the sale of derivative products to financial and corporate customers. In both cases, the interest-rate risk is precisely covered by derivatives of the opposite sign traded on the market. Operations in derivatives are also carried out to counter-balance changes in the Credit Value Adjustment (CVA) due to the interest rate trend (known as “CVA risk”).

The pairs of derivatives with balanced brokering, which determine the “Structuring” segment, are typically composed of a derivative with clientele (not the subject of collateralisation agreements) and a derivative of the opposite sign with primary market counterparty, hedged by a contract of cash collateral of the “CSA” type.

Historically, the Dexia Group evaluated the derivatives by discounting the expected differential on the discount curve based on interbank rates of the “BOR” type (typically Euribor) for non-collateralised derivatives and on the discount curve based on daily rates (“OIS”) for collateralised derivatives. To come into line with market developments since the second quarter of 2016 the Dexia Group has changed its approach and considers the curve based on the daily rates (“OIS”) as the only discount curve for all products, regardless of the presence or absence of collateralisation agreements.

At the same time, the Funding Value Adjustment (FVA), determined by reference to the non-collateralised derivatives, is calculated on an OIS basis.

Until the recent methodological change cited above, interest-rate risk on the trading book was mostly caused by the basis risk due to the adoption of different discount curves. Subsequently, the basis risk was neutralised and, therefore, at 30 June 2017 the shift sensitivity of the portfolio, equal to € -10,722 for 1 basis point (b.p.) against an operational limit set at € ± 45,000, was due to the presence of net interest and other banking income. Interest-rate risk is
managed by the Funding & Markets organisational unit, and is subject to daily monitoring by the Market Risk Unit.

Again at 30 June 2017, a VaR of € 0.2 million was recorded compared with an operational limit set at € 0.5 million. Both indicators were kept constantly below the limits during the half-year period.

As regards the above-mentioned management of the “CVA risk” - also assigned to the “Funding & Markets” unit within the scope of specific operating risk limits that are monitored by the Market Risk unit - derivatives made for the purpose of hedging the sensitivity of CVA to interest rates at 30 June 2017 generated a shift-sensitivity equal to € -36,986 for 1 b.p. (originated by three plain vanilla interest rate swaps) against a sensitivity CVA estimated at € +42,797. The overall sensitivity of the perimeter being managed in terms of the “CVA risk” at 30 June 2017 is therefore equal to € +5,811 for 1 b.p. compared to an operating limit of € ± 50,000, and remained consistently below this limit during the half-year period, and the operational limits were complied with, which were set on the “gamma” indicators (€ -99 at 30/06 compared to a limit of € ± 7,500 for 1 b.p.) and the “vega” indicators (€ -36,201 at 30/06 against a limit equal to € ± 150,000 for a shock of 100 b.p. on the volatility surface).

4.3.2.3 Regulatory Banking Book

The exposure to short-term interest-rate risk (usually below one year) of the banking book, generated in particular by the fixing of the Euribor parameter to which the financial assets and liabilities are typically indexed or synthetically transformed at the bank’s floating rate, is managed by the Funding & Markets organisational unit, within the Cash and Liquidity Management (CLM) area. Operating proposals for opening or closing the interest rate risk are discussed and approved by the Finance Committee, which evaluates expected impacts on the use of the fixed operating and risk limits. Derivatives used to hedge against interest rate risk are mainly Overnight Indexed Swaps (OIS).

Exposure to medium/long-term fixed rate interest rate risk is generated by mismatching between financial assets and liabilities with an original maturity of more than a year (including the conventional fixed rate liability represented by shareholders’ equity) and the related hedging derivatives (“ALM Rate” segment). At the end of June 2017, this exposure was residual, at 2.8 million of sensitivity per 100 bp (up to a limit of € 15 million). Every operating management proposal aimed at managing interest rate risk is approved by the Finance Committee on the basis of actions presented by Financial Strategy.

Activities to measure and control market risk are assigned to Market Risk (within CLM) and to Financial Strategy (within ALM Rate). They calculated risk/performance indicators verifying whether the operating limits set were respected.

For interest rate risk, fair value or cash flow hedging derivatives are used. The most frequently used instruments are Interest Rate Swaps.

For the CLM activities, we note the following values in relation to the first half of 2017:
Operating limits established for the above two risk indicators, as well as the sensitivity sublimit of 15 million, to be respected for each tenor (3, 6, 9 and 12 months), were always respected during the half.

For the “ALM Rate” segment, the following values were recorded in the first half of 2017:

<table>
<thead>
<tr>
<th></th>
<th>Sensitivity Shift* (absolute values in €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 June 2017</td>
<td>2,862,401</td>
</tr>
<tr>
<td>minimum</td>
<td>464,149</td>
</tr>
<tr>
<td>average</td>
<td>1,438,587</td>
</tr>
<tr>
<td>maximum</td>
<td>2,862,401</td>
</tr>
<tr>
<td>operating limit</td>
<td>15,000,000</td>
</tr>
</tbody>
</table>

*Directional at 100 bps and rotation with differentiated shifts.

It is worth noting that the sensitivity recognised for operational purposes includes the sensitivity attributable to the “conventional fixed-rate liability” represented by Dexia Crediop’s own funds. The limit on the sensitivity indicator was consistently complied with during the half-year period.

Finally, it should be noted that the banking book is exposed to basis risk with reference to hedging derivatives that are the subject of collateral contracts (typically “CSA”), which are enhanced by the use of an “OIS” discount curve, different from the one based on the Euribor parameter used for the underlying items of hedging relationships. This component contributes to the volatility of the income statement and the results derived from it, of a measurement nature, are classified in the Accounting Volatility segment related to segment reporting.

## 4.3.3 Price risk

### Qualitative information

**A: General aspects, management and measurement of price risk**

The banking book is exposed to price risk referred to equity securities from equity investments classified among assets available for sale.

Among the aforementioned equity investments, all unlisted, that in the Istituto per il
Credito Sportivo is of note, for which the booked fair value was measured on the basis of the portion of shareholders’ equity attributed by the new Bylaws, issued with a combined ministerial decree of 24 January 2014 and published in the Official Journal on 19 April 2014. As indicated in the section on judicial proceedings in course, this measurement does not in any way constitute acquiescence with respect to the “forced” reduction of the equity investment made by the new Bylaws, which are asserted to be illegitimate, as declared in the various appeals made by the company.

**B: Price risk hedging activities**

Given the nature underlying the price risk, no hedges are implemented.

**4.3.4 Exchange-rate risk**

The Group holds financial assets and liabilities denominated in currencies other than the Euro.

These financial assets and liabilities are systematically hedged at the origin against exchange-rate risks using derivative products (currency and interest rate swaps). The exceptions are certain transactions in dollars, for which the exchange-rate risk is extremely limited and restricted to the generated margins. Since the exposures were absolutely minimal, no hedging operations were entered into.

The activities of risk measurement and control are the same as those described for interest-rate risk.

**4.3.5 Liquidity risk**

**Management and measurement of the liquidity risk**

The bank is structurally exposed to liquidity risk as the lending activity is mainly concentrated on a long-term horizon against deposits that are characterised by a shorter average duration. We should note also the risk of greater liquidity needs associated with a reduction in the market interest rate curve or an increase in loan spreads on Italian issuers, which would translate respectively into higher margins to be paid to counterparties of cash collateral contracts on derivative products or to counterparties of collateralised funding operations.

The management of short-term liquidity risk lies with the Cash & Liquidity Management & Market Execution. The sustainability of the liquidity profile in the long-term is first and foremost verified during approval of the long-term Financial Plan in relation to the objectives established in terms of volumes and time frames of loans and deposits.

Liquidity risk control is entrusted within Finance & Operation to Financial Strategy which operates within the framework of the internal provision on liquidity risk governance, management and control, updated by the Board of Directors’ resolution of 06 November 2014. In particular, the aforementioned unit measures two basic measurements on a daily basis, over a time period of one day to six months:

- liquidity gap (accumulated balance of forecast cash flows according to maturity);
available reserves (value of eligible assets according to maturity); analysing the developments through daily communications to senior management, the corresponding Dexia Group department and the regulatory authority (three-month maturity ladder). In addition, following the schedule established by the regulatory authority, the unit calculates the value of the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) indicators. The trends of these are similarly analysed and the information is sent to the recipients cited above in a timely manner. From the beginning of 2015, the first recognition statements on the subject of Asset Encumbrance have also been sent to the regulatory authority. Since April 2016, the new reports have also been sent to the regulatory authority, on a monthly basis, regarding the Additional Liquidity Monitoring Metrics. The liquidity risk control system includes stress tests and a Contingency Funding Plan drawn up by the Dexia Group.

It should be remembered that, from June 2012, the bank’s condition of autonomy was removed: in fact, the residual liquidity needs of Dexia Crediop are covered by Dexia Crédit Local, which obtained in December of the same year, the activation of a system of guarantees by France, Belgium and Luxembourg, aimed at meeting the expected liquidity requirements of the whole Dexia Group. Therefore, to date, Dexia Crediop is totally dependent on Dexia Crédit Local to cover its residual liquidity needs. With regard to maturities beyond six months, the department carries out regular analysis on monthly buckets (up to three years) and annual buckets (more than three years) of the evolution of the liquidity gap and available reserves, according to methods corresponding to the regulatory provisions of the supervisory authorities (“regulatory position”) and of normal operations (“operational position”). The outcomes of the above analyses and audits are discussed by the Finance Committee usually once a fortnight.

For 2017, the liquidity gap of Dexia Crediop is stable at a level of approximately € 11.5 billion while reserves eligible for refinancing through the Central Bank amount to about € 8.6 billion. Liquidity requirements, hypothesising full use of usable reserves, amount to around 3 billion, fully covered until December 2018 by the liquidity line existing with Dexia Crédit Local.

4.3.6 Operational risks

Operational risk is “the risk of loss resulting from inadequate or failed internal processes, human resources and systems, or from external events”. This definition includes legal risk, but not strategic risk (i.e. the risk of not achieving the desired performance owing to assessment errors by the management) or reputational risk (i.e. the risk of losing revenues owing to a loss of public confidence in the broker).

The method used by the Group for measuring operational risk is the Traditional Standardized Approach (TSA).

As regards the qualitative method of assessing operational risks, the Operational Risk & Security unit is active within the sphere of the Risk Unit, and has responsibility for:

- setting up the regulatory system for the management, monitoring and mitigation of operational risks;
- defining and adopting methods for measuring risks;
- defining, adopting and producing the reporting system on risk trends;
- managing profiles and passwords for IT applications, including the National Interbank
Network and SWIFT;

- managing the Operating Continuity Plan in accordance with the guidelines issued by the Bank of Italy and the Dexia Group.

As regards management performance assessments, a number of Operational Risk Correspondents (ORC) have been chosen within each of the bank’s operating units, with the task of noting every operational risk event and subsequently filing the information in the Group’s loss-database.

With regards to the aspects linked to legal risks, we would point out that also in view of the disputes with some local authorities, described in section 4.3.1, the Legal operating unit has taken on a key role in managing these disputes and the related risk.

The following are, in percentage terms, the main causes of the occurrence of operational risk events recorded in the first half of 2017:

<table>
<thead>
<tr>
<th>CATEGORY OF EVENT</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal fraud</td>
<td>0%</td>
</tr>
<tr>
<td>External fraud</td>
<td>17%</td>
</tr>
<tr>
<td>Relationships with staff and safety in the workplace</td>
<td>0%</td>
</tr>
<tr>
<td>Customers, products and business practice</td>
<td>8%</td>
</tr>
<tr>
<td>Damage to or loss of tangible assets</td>
<td>0%</td>
</tr>
<tr>
<td>System failure or breakdown</td>
<td>58%</td>
</tr>
<tr>
<td>Process execution, delivery and management</td>
<td>17%</td>
</tr>
</tbody>
</table>

4.3.7 Other information regarding risks

This section provides information about risks linked to special financial instruments, as requested by the Bank of Italy and in compliance with the contents of the Financial Stability Forum Report of 7 April 2008.

4.3.7.1 Asset-Backed Securities (ABS)

At 30 June 2017 the value of the securities portfolio in question, entirely booked to the “Loans and Receivables” category, totalled 627 million, of which 95% relating to single tranche (non-segmented) transactions and the remaining 5% regarding senior securities.

The exposure of this portfolio is fully at a risk compared to that of the Regions.

4.3.7.2 Residential Mortgage-Backed Securities (RMBS)

At 30 June 2017, there are no securities of this type in the portfolio.

4.3.7.3 Collateralised Debt Obligations (CDO)

At 30 June 2017, there are no securities of this type in the portfolio.

Measurement criteria
ABSs/RMBSs are measured by the specific Dexia Group Competence Centre using a methodology, shared with the Dexia Crediop Risk Unit, that uses market spread curves on these products, divided by ratings provided by external providers with excellent standing.

Market prices for individual securities, received from brokers using the main informational circuits, are compared with the aforementioned curves in order to arrive at a final valuation which takes into account other factors such as liquidity and the last time the price was updated.

4.4 Other information

4.4.1 Transactions with related parties

As required by IAS 24 and CONSOB Communication No. 6064293 of 28 July 2006, below we provide information on transactions with related parties.

We also note that Dexia Crediop controls the following companies:
- DCI - Dexia Crediop Ireland Ulc, in voluntary liquidation, with a 100% stake;
- Tevere Finance S.r.l., placed in liquidation during the first half of 2017 and removed from the Registry of Companies on 5 July 2017, over which de facto control is held.

Additionally, the company is controlled and subject to management and coordination (70% of share capital) by Dexia Crédit Local.

Transactions with other companies in the DCL Group

The transactions in question mainly refer to those carried out with the Parent Company Dexia Crédit Local SA.

<table>
<thead>
<tr>
<th>Assets and Liabilities</th>
<th>€ millions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>- Financial assets held for trading</td>
<td>65</td>
</tr>
<tr>
<td>- Deposits</td>
<td>3</td>
</tr>
<tr>
<td>- Hedging derivatives</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>68</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>- Deposits</td>
<td>5,495</td>
</tr>
<tr>
<td>- Loans received</td>
<td>2,479</td>
</tr>
<tr>
<td>- Financial liabilities held for trading</td>
<td>19</td>
</tr>
<tr>
<td>- Repurchase agreements</td>
<td>2,070</td>
</tr>
<tr>
<td>- Hedging derivatives</td>
<td>398</td>
</tr>
<tr>
<td>- Securities in issue</td>
<td>54</td>
</tr>
<tr>
<td>- Other liabilities</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10,517</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other transactions</th>
<th>€ millions</th>
</tr>
</thead>
</table>


Transactions with related parties as above were carried out using conditions equivalent to the prevailing conditions for transactions made on the free market.

4.4.2 Significant non-recurring operations and events

No important non-recurring events or transactions occurred.

4.4.3 Atypical and/or unusual transactions

No atypical and/or unusual transactions occurred.

4.4.4 Segment reporting

Criteria for segment reporting

Segment reporting must be drawn up in accordance with the “IFRS 8 – Operating Segments” standard and no longer drafted according to IAS 14, as required in the past.

The adoption of IFRS 8 confirms the logic according to which the business sectors subject to disclosure were chosen, since the Bank has long adopted the “management approach”, i.e. choosing to use the same structure for the financial statements as that used for preparing internal reporting.

Primary format: “Segment Reporting”

According to the segmentation, for the purposes of segment reporting the results of the Group’s recurrent transactions, classified in the “run rate” segment, are separated from the valuation results, classified in the “Accounting Volatility” segment.

The “run rate” segment includes the following lines of business with similar features in terms of products and services offered to customers:

- Public & Project Finance: this includes lending and financial services offered by the Dexia Group to its customers and the short and medium-to-long-term financing of such activity;
- Other income: this includes managing free capital, equity investments and other assets not allocated elsewhere.
For more information on the contents of each segment, please refer to paragraph 1 “Report on Operations”.

Results by business segments

The tables below provide the financial results of Dexia Crediop as at 30 June 2017 and 30 June 2016, subdivided by business segments as described above.

Distribution according to business sector: economic data 30 June 2017

<table>
<thead>
<tr>
<th>Income Statement items June 2017</th>
<th>Project &amp; Public Finance</th>
<th>Other Income</th>
<th>Total Run Rate</th>
<th>Accounting Volatility</th>
<th>Dexia Crediop Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income (item 30)</td>
<td>2</td>
<td>16</td>
<td>18</td>
<td>0</td>
<td>18</td>
</tr>
<tr>
<td>Net interest and other banking income (item 120)</td>
<td>-14</td>
<td>15</td>
<td>1</td>
<td>31</td>
<td>32</td>
</tr>
<tr>
<td>Net adjustment for impairment (item 130)</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Net adjustments on tangible and intangible assets (items 200 and 210)</td>
<td>3</td>
<td>-1</td>
<td>-1</td>
<td>0</td>
<td>-1</td>
</tr>
<tr>
<td>Profit (loss) from current operations before tax (item 280)</td>
<td>-32</td>
<td>15</td>
<td>-17</td>
<td>31</td>
<td>14</td>
</tr>
</tbody>
</table>

Distribution according to business sector: economic data 30 June 2016

<table>
<thead>
<tr>
<th>Income Statement items June 2016</th>
<th>Project &amp; Public Finance</th>
<th>Other Income</th>
<th>Total Run Rate</th>
<th>Accounting Volatility</th>
<th>Dexia Crediop Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income (item 30)</td>
<td>9</td>
<td>18</td>
<td>27</td>
<td>0</td>
<td>27</td>
</tr>
<tr>
<td>Net interest and other banking income (item 120)</td>
<td>11</td>
<td>17</td>
<td>28</td>
<td>-43</td>
<td>-15</td>
</tr>
<tr>
<td>Net adjustment for impairment (item 130)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net adjustments on tangible and intangible assets (items 200 and 210)</td>
<td>0</td>
<td>-1</td>
<td>-1</td>
<td>0</td>
<td>-1</td>
</tr>
<tr>
<td>Profit (loss) from current operations before tax (item 280)</td>
<td>-13</td>
<td>9</td>
<td>-4</td>
<td>-43</td>
<td>-47</td>
</tr>
</tbody>
</table>

Total net interest and other banking income of Dexia Crediop amounted to 32 million at 30 June 2017, compared to -15 million in the first half of 2016. The increase is mainly due to positive developments in net trading gains (losses), hedging, disposals/repurchases (31 million) compared to the -43 million seen during the same period of 2016, following the measurement of derivatives, within the volatile financial market seen during that period (accounting volatility).
This positive effect was partially balanced by the 9 million decrease in net interest income, deriving both from amortisation and sales of the stock of assets and from liquidity management operations, as well as a negative balance for net fee and commission income of 17 million, substantially attributable to that accruing on the liquidity line granted by the parent company Dexia Crédit Local.

For more details on the evolution of Dexia Crediop’s results in the period, please refer to section 4.2.

Of the net interest and other banking income of Dexia Crediop 1 million derives from recurrent activities (“run rate”) of which -14 million is from “Project & Public Finance” activities and +15 million is from “Other Income”, while +31 million is from valuation components (accounting volatility).

At 30 June 2017 no writedowns for impairment of receivables were booked related to the Project & Public Finance segment associated with collective adjustments.

The result of continuing operations before tax for the Dexia Crediop Group at 30 June 2017 was 14 million compared to -47 million at 30 June 2016. This result derives for -17 million from recurrent activities (run rate) and for +31 million from valuation components classified in accounting volatility.
5 Certification of the condensed interim financial report

Certification of the condensed interim financial statements pursuant to Art. 154-bis of Italian Legislative Decree 58/98 and art. 81-ter of Consob Regulation no. 11971 of 14 May 1999 and successive amendments and additions

1. The undersigned Jean Le Naour, as Chief Executive Officer, and Emmanuel Campana, as the Financial Reporting Manager, responsible for preparing the annual report of Dexia Crediop S.p.A., hereby testify, also taking into account the provisions of art. 154-bis, clauses 3 and 4, of legislative decree no. 58 of 24 February 1998, to:
   - the adequacy in respect of the features of the company, and
   - the effective application, during the first half of the year 2017, of the administrative and accounting procedures on which the condensed interim financial report is based.

2. He also certifies that:

2.1 the condensed interim financial report:
   a) has been drawn up according to the international accounting standards applicable and recognised in the European Community pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19 July 2002;
   b) corresponds to the balances in the accounting records;
   c) give a true and correct representation of the issuer’s equity and economic and financial situation.

2.2 The interim report on operations includes reliable analysis with reference to the important events occurring during the first six months of the year and their impact on the condensed interim financial report, together with a description of the main risks and uncertainties for the remaining six months of the year. In addition, the interim report on operations includes reliable analysis of the information regarding important transactions with related parties.

27 July 2017

Jean Le Naour

Chief Executive Officer

Emmanuel Campana

The Financial Reporting Manager
Auditor's Limited Review Report on the half-year condensed financial statements

To the Shareholders of
Dexia Crediop S.p.A.

Introduction

We have reviewed the accompanying half-year condensed financial statements, consisting of statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes of Dexia Crediop S.p.A. as of June 30, 2017. Directors are responsible for the preparation of the half-year condensed financial statements in accordance with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these half-year condensed financial statements based on our limited review.

Scope of limited review

We conducted our limited review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. The limited review on the half-year condensed financial statements consists of making discussions, primarily with management responsible for financial and accounting matters, and applying analytical and other limited review procedures. A limited review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) 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 on the half-year condensed financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-year condensed financial statements of Dexia Crediop S.p.A. as of June 30, 2017, are not prepared, in all material respects, in accordance with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Emphasis of matter

As an emphasis of matter, we draw your attention to what is described by the directors in the half-year financial report, in the paragraph "Future operational prospects", regarding the information related to the maintenance of the going concern basis of Dexia Crediop, in particular:

"In order to assess Dexia Crediop's future operational prospects, it is necessary to refer to the situation of the Dexia Group, which has adopted an orderly resolution plan approved by the European Commission on 28 December 2012. [Omissis] Dexia Crediop will implement the actions and initiatives defined at the level of the Dexia Group, and held to be suitable for the management of its orderly resolution over time. In this context, the projection of the net liquidity position is balanced through the end of 2018, indicating negative balances after that. This position
benefits from long-term operations carried out with the parent company at the end of 2016, in particular 2 billion related to a two-year deposit and 3.5 billion related to a confirmed credit line with a 3-year duration. [Omissis] To cover its liquidity gap, in the context of the management in run-off of the Dexia Group, Dexia Crediop will continue to concentrate its funding activities on the domestic interbank market. Funding to cover requirements includes: the inter-bank market, with financing platforms on which Dexia Crediop already operates, and support from the shareholders, in particular from Dexia Crédit Local, as contemplated by the European Commission. The Dexia Group's funding strategy does not foresee access to the capital market for Dexia Crediop."

"In conclusion, given what has been illustrated and taking into account the orderly resolution plan approved by the European Commission, the half-yearly financial report for Dexia Crediop was prepared on the assumption that the company is a going concern. During the resolution, the prospects of Dexia Crediop could suffer from the same factors identified for the Dexia Group, as regards uncertainties connected with the implementation of the plan and, in particular, the Group's ability to provide support to subsidiaries in a difficult market situation."

Milan, 1 August 2017

Mazars Italia S.p.A.

(signed on the original)

Olivier Rombaut
Partner – Registered auditor

*The report has been translated solely for the convenience of International readers*