Annual report 2010

Dexia Crédit Local

DEXIA

Dexia Crédit Local

Contents

This free translation of the registration document published in the French language is provided solely for the convenience of English-speaking readers.
The French version of the Dexia Crédit Local registration document (*document de référence*) was filed with the French Financial Markets Authority (Autorité des marchés financiers, or AMF) on 7 April, 2011, in compliance with Article 212-13 of the AMF's General Regulations.

Annual report 2010

Dexia profile

Dexia is a European banking group, with 35,200 members of staff and core shareholders' equity of EUR 19.2 billion as at 31 December 2010. The Group carries out its activities principally in Belgium, Luxembourg, France and Turkey. The Dexia share is listed on Euronext Brussels and Paris and the Luxembourg Stock Exchange, and is included in the BEL20 reference index of the Brussels Stock Exchange, and the Dow Jones EuroStoxx Banks.

Dexia 2014: a retail bank, serving 10 million customers

The Dexia Group has posted clear strategic ambitions for 2014 and fixed as objectives:

- to complete its financial restructuring, giving precedence to income from its commercial franchises;
- to consolidate and to develop its strong commercial franchises, rebalancing its business line portfolio around retail banking, and tapping growth opportunities offered by the market in Turkey;
- to adopt an optimised operational model, supported by the search for synergies and efficiency.

This return to the essence resulting from the Group's strategic repositioning is reflected in Dexia's values, whereby members of staff share three aims: respect, excellence and agility.

Business lines

Retail and Commercial Banking

Dexia offers a wide range of retail, commercial and private banking services to over eight million customers.

Dexia ranks among the largest banks in Belgium and Luxembourg. In Belgium, Dexia serves its four million customers through a network of approximately 850 branches. The Luxembourg operation is the international wealth management centre within the Group; it also covers the country with a nationwide network of branches. Dexia also holds a strong position in Turkey, through DenizBank, which currently stands in sixth(1) position among privately-held banks and serves its customers through a nationwide network of some 500 branches. Besides the retail and commercial banking activities, DenizBank is a fully-fledged bank, with a significant corporate activity and offering its clients asset management services and insurance products.

The Group aims to continue developing its commercial franchises in Belgium and Luxembourg and to capture the significant growth potential of Turkey. The objective is to increase the proportion of income from its retail and commercial banking activities (approximately 60% of the Group's total income, including 27% from Turkey) and to achieve a client base of 10 million (four million in Belgium and Luxembourg, six million in Turkey) by 2014.

(1) Internal source

Public and Wholesale Banking

Dexia plays a major role in the financing of local facilities and infrastructures, the health and social housing sectors and the social economy, principally in Belgium and France.

Dexia is also active:

- in the field of project finance, adopting a selective approach and in sectors such as infrastructures and renewable energies, both in Europe and North America;
- in the field of corporate banking in Belgium, where Dexia focuses on medium-sized corporates, whilst maintaining an opportunist presence with large corporates.

In addition, the Group is established in Germany, with an access to the *Pfandbriefe* market.

Close to its clients and fully in tune with their requirements, Dexia is constantly developing and widening its range of products and services. The aim is to go well beyond the role of specialist lender, offering clients of the business line integrated solutions (treasury management, budget optimisation, IT solutions and so on) most suited to their needs.

Asset Management and Services

This business line consists of three activities (asset management, investor services and insurance), characterised by attractive growth outlook based on a diversified clientele and strong collaboration with the Group's other commercial franchises.

With EUR 86.4 billion of assets under management as at 31 December 2010, Dexia Asset Management is the Group's asset management centre. Its four management centres (in Belgium, France, Luxembourg and Australia) serve a broad client base.

The investor services business is conducted by RBC Dexia Investor Services, a joint venture with Royal Bank of Canada, which offers its expertise in global custody, fund and pension administration and shareholder services to institutions all around the world. Total assets under administration amounted to EUR 2,101 billion as at 31 December 2010.

Dexia's insurance activities are mainly concentrated on the Belgian and Luxembourg markets. The Group offers a complete range of life and non-life insurance products to retail, commercial and private banking clients as well as to Dexia's public and semi-public clients, through a banking-insurance approach and through a network of tied agents.

Ratings[1]

The Group's main operating entities operating on the long-term capital markets, Dexia Bank Belgium, Dexia Crédit Local and Dexia Banque Internationale à Luxembourg, are rated A+ by Fitch, A1 by Moody's and A by Standard & Poor's. Three of Dexia's European subsidiaries (Dexia Municipal Agency, Dexia Kommunalbank Deutschland and Dexia LdG Banque SA) issue Triple-A rated secured bonds.

(1) As at 23 March 2011

Message from the Chairman of the Board of Directors and the Chief Executive Officer of Dexia SA

Over the last two years, Dexia has undergone an in-depth transformation, aimed at restoring the robustness of its financial base and ensuring a sustainable future for the Group.

In this transformation process, 2010 was a year of significant change, marked by two priority objectives: acceleration of our financial restructuring and development of our commercial franchises, in line with our objectives.

Throughout the year, despite the unstable economic environment, we went to great lengths to accelerate the financial restructuring, and this was reflected by rapid asset disposals and a substantial improvement of our liquidity profile.

We continued with our disposal plan in accordance with the programme agreed with the European Commission, disposing of various holdings and entities as well as a total of 27.2 billion euros in bonds and loans in run-off. Those disposals have been reflected by a reduction of the size of our balance sheet by 18% since the end of 2008.

In terms of liquidity, continuing the endeavours begun at the end of 2008, there has been a rapid and material improvement of the Group's situation. Our short-term funding requirement has been reduced by 141 billion euros compared with the maximum reached in October 2008 and is now at 119 billion euros at the end of December 2010. On the other hand, we have improved the quality of our sources of funding by rebalancing our liquidity profile, aligning it towards longer-term funding, based on stable resources, increasingly gathered from our clients.

These efforts enabled us definitively to exit the Belgian, French and Luxembourg State guarantee on our funding by 30 June 2010. In a particularly tense economic and financial environment resulting from the sovereign debt crisis in certain European countries, we have returned to full funding autonomy, testifying to the solid progress made in terms of our financial structure.

In October 2010, we presented our strategic plan for 2014. The road map for each business line was charted at an "Investor Day", detailing the principles of the transformation of those business lines. For our Retail and Commercial Banking activities, our ambition is to increase our market share as well as the equipment rate for our client base. An investment plan was launched to support that ambition. Indeed, in Belgium, the establishment of our new distribution model was a priority in 2010. In all, 304 branches were renovated and additional account managers were appointed to improve the service provided to our clients. The intensification of our collection efforts resulted in a 5% increase of deposits in Belgium and Luxembourg. In Turkey, we continued with our policy of dynamic expansion, supported by the opening of 50 new branches over the year. In the field of public banking, our Public and Wholesale Banking business line is confirming its status as a profitable and recognised specialist on its historical markets, Belgium and Luxembourg, on the basis of a model offering an increasingly comprehensive and integrated range of products. Our asset management, investor services and insurance activities, characterised by attractive growth prospects founded on a diversified client base, will further intensify their collaboration with the Group's other commercial franchises.

At 723 million euros, net profit for 2010 is a sign of this accelerated transformation of our Group. The improvement of our funding mix and the disposal of assets in run-off are reflected in line with our objectives by a fall in earnings. Nevertheless, the result reflects the solid progress made by the commercial business lines, which post pre-tax income up 18% over the year (excluding gains from disposals). The good performance by Retail and Commercial Banking, with strong growth of both loans and deposits, illustrates our robust commercial position on our main markets. Our Public and Wholesale Banking activities, refocused on our historical markets, particularly in Belgium and France, demonstrated their resistance and their profitability throughout the year and our expertise in project finance was confirmed by the granting of numerous mandates and the presentation of many awards. The contribution by Asset Management and Services to results doubled over the year, with the excellent performance of our insurance activity, whilst the recovery of the financial markets was beneficial to our asset management and investor services activities.

In addition, the gradual improvement of the credit environment, particularly in Turkey, enabled the cost of risk to be improved for our commercial business lines. At the same time, we were led however to make additional impairments on our Financial products portfolio, to take account of more conservative assumptions as to the evolution of the US RMBS market. Those impairments are nonetheless without impact on our solvency ratios, which are protected from any loss or additional impairment on the Financial products portfolio following the State guarantee mechanism.

With a Tier 1 ratio at 13.1%, our solvency remains excellent and enables us to view future regulatory developments with confidence.

We can be proud of our achievements in 2010 and our successes, which are the fruit of the commitment of everyone, members of staff, shareholders and clients alike. In two years we have implemented two thirds of our transformation plan. We would therefore like to thank our shareholders for their support and have them benefit from the year's result with the issue to them of new shares in an amount of approximately 280 million euros.

Transformation will remain on the agenda for 2011 and we are concentrating even more on the strategic development of our commercial franchises. We are entirely confident in the Group's ability to achieve the objectives set for 2014.

Jean-Luc Dehaene
Chairman of the Board of Directors

Pierre Mariani
Chief Executive Officer

Dexia Crédit Local profile

The local development bank

In France, Dexia's core businesses are financing local facilities and services and providing financial services for the local public sector. A long-time partner in the field of local development, Dexia puts its expertise to work in every region to address every issue that affects the life of the community.

The skill of its network of specialists and partnerships has allowed the Bank to build trusting relationships with local sub-national decision-makers and stakeholders in the fields of healthcare, housing and the social economy.

In February 2010, the European Commission approved Dexia's restructuring plan, and in June 2010 the Bank exited fully from the mechanism that had been providing State guarantees for its funding since October 2008. The European Commission confirmed the Group's long-term viability.

The Dexia Plan 2014 that began in October 2010 reaffirmed, among other things, Dexia's refocusing of its Public and Wholesale Banking business on its traditional markets, principally those of Dexia Crédit Local in France. This plan was followed in December 2010 by the strengthening and adaptation of the Group's management team going into this new stage. The Bank's objective is to be a selective, profitable and recognised specialist in the French market. Dexia Crédit Local adopted a proactive approach of maintaining clarity and transparency with its customers with regard to all policies concerning the marketing of structured loans in November 2009 by making ten commitments regarding the marketing of these loans. The Bank decided to go beyond the principles established by the Gissler Charter, which is subsequently signed.

Under these conditions, Dexia Crédit Local strives to provide the highest possible quality of service. The Bank assists local stakeholders worldwide at every stage of their projects. Close to its customers and always ready to lend a helpful ear, beyond its role of specialist lender Dexia Crédit Local helps them fulfil their needs and optimise their resources. From cash management to asset finance, bank payment systems to investment of deposits or property management, statutory insurance to social engineering, the Bank provides its customers with customised solutions.

With its specialised partners, Dexia Crédit Local is also developing a constantly broadening and innovative service offer that promotes cost containment (fleet and IT leasing, in-home services for seniors, energy efficiency of buildings, development of nurseries and student housing, etc.). Moreover, the Bank's project finance expertise in the transportation, renewable energy, environment and infrastructure sectors enables it to offer its customers optimised solutions, especially in the form of public-private partnerships.

Finally, alongside local governments and their partners, Dexia Crédit Local and the Dexia France Foundation are promoting social action in the fields of solidarity, citizenship and culture. This commitment has also been taken up by the Bank's employees, who sponsor young job-seekers and help select the Foundation's projects. Dexia Crédit Local is one of the first major companies to have incorporated the sponsorship of skills-building into its social policy.

Dexia Crédit Local is the only bank operating right across France to have all of its activities certified ISO 9001. This certification was renewed in June 2010 by Bureau Veritas Certification.

Message from the Chief Executive Officer of Dexia Crédit Local

Fiscal 2010 was marked by the continued implementation of the Dexia Group's transformation plan at Dexia Crédit Local. All year long, the Bank worked to improve its financial equilibrium, in accordance with the Dexia Group restructuring plan that was approved by the European Commission in February.

First, Dexia Crédit Local made a tremendous contribution to strengthening the Group's long-term funding. During the year, Dexia Crédit Local issued securities with a total value of over EUR 42 billion in the form of covered bonds and under the State guarantee mechanism (which the Group exited halfway through the year, in accordance with its commitments to the European Commission), thereby providing 95% of the Group's long-term funding needs.

The Bank also continued to refocus its operations on countries in which it has a strong position in the market and potential for profitable growth. The Bank signed an agreement in November to sell its Slovak subsidiary, and is in the process of finalising the closures of the Tokyo branch and the Australian subsidiary.

Dexia Crédit Local pursued its goal of restoring balance sheet equilibrium through intensive sales of non-strategic assets and by regularly increasing its provisioning of assets in the US Financial products portfolio. Finally, the Group's front office teams have made the collection of customer deposits a clear priority, wherever it is possible to do so. The results of this activity are very encouraging, especially in Germany.

As a significant portion of those of Dexia's operations that were placed in run-off (now combined into a single Legacy Division) are housed within Dexia Crédit Local for both accounting and legal purposes, the Bank's results were heavily impacted by the restructuring initiatives undertaken to restore long-term financial equilibrium to the entire Group.

The commercial and financial performances of the Public and Wholesale Banking business improved, thanks to the implementation of a completely redesigned business strategy.

The Bank is continuing to serve its customers by adopting a selective approach that emphasises high value-added transactions and the quality of service provided. With an expanded range of innovative services, Dexia Crédit Local will continue to be the global and long-term financial partner of its core, strategic customers in France, Spain and Italy.

Dexia Crédit Local also enhanced its position as a major player in project finance in these countries, as well as in the United Kingdom and the United States, thanks to its integrated organisation and world-renowned expertise, notably in the fields of infrastructure, transportation, renewable energy and the environment.

In every one of its markets, the Bank is now favouring high-revenue products that consume as little as possible of its balance sheet when the financing is subsequently set in place (high asset turnover) and promoting complementary, fee-generating services.

Within a group that is steadfastly pursuing its own restructuring, Dexia Crédit Local's strategy has now been clarified, and the objectives of the Public and Wholesale Banking business line were spelled out in detail in the "Dexia Forward 2014" strategic plan presented in the autumn of 2010.

In 2011, all of the Bank's employees will rally to put these objectives into practice in all of their various activities by: continuing to implement the new commercial policy; enhancing and diversifying relationships with their customers; pursuing ongoing measures to restore balance sheet equilibrium and ensure that the Group's funding needs are met; and improving Dexia Crédit Local's performance by striving to attain, now more than ever, the operational excellence that the Bank's customers and partners have rightly come to expect.

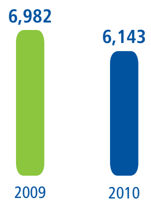
Alain Clot
Chief Executive Officer

2010 key figures

General presentation

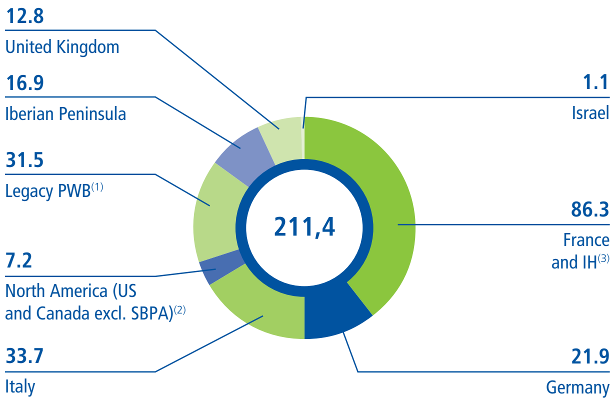
PUBLIC AND PROJECT FINANCE

(EUR millions)



OUTSTANDING MEDIUM- AND LONG-TERM LOANS BY COUNTRY

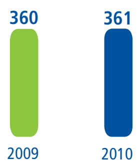
(EUR billions)



(1) Including EUR 18.8 billion in US SBPA.
(2) SBPA : Standby Bond Purchase Agreement liquidity guarantee for municipalities.
(3) International Headquarters

TOTAL ASSETS AND NET INCOME

Total assets
(EUR billions)

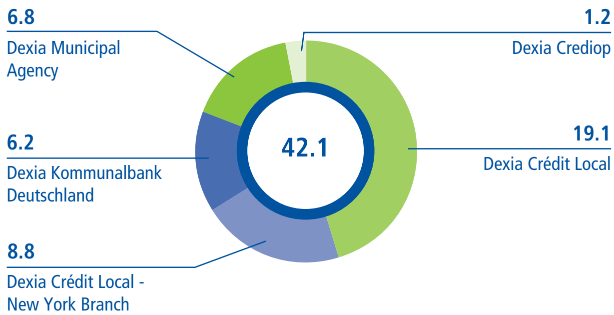


Net income Group share
(EUR millions)

2009	2010
269	(696)

LONG-TERM FUNDING

(EUR billions)



LONG-TERM CREDIT RATINGS

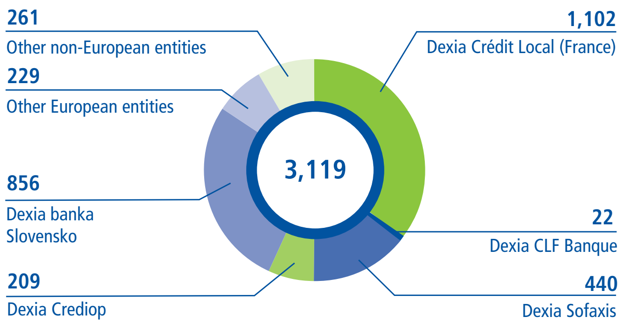
(As at 23 March 2011)

	Fitch		Moody's		Standard & Poor's	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
Dexia Crédit Local	A+	Stable	A1	Stable	A	Negative
Dexia Municipal Agency(1)	AAA	-	Aaa	-	AAA	Stable
Dexia Kommunalbank Deutschland(2)	-	-	-	-	AAA	Stable
Dexia Crediop	A	Negative	A2	Negative	A-	Developing
Dexia Sabadell	-	-	Baa2	Negative	-	-

(1) Obligations foncières
(2) Pfandbriefe

DEXIA CRÉDIT LOCAL GROUP EMPLOYEES

As at 31 December 2010



Board of Directors (March 2011)

Chairman
Jean-Luc Dehaene
Chairman of the Board of Directors of Dexia SA
Member of the European Parliament

Chief Executive Officer
Alain Clot
Head of Public and Wholesale Banking
Member of the Management Board of Dexia SA

Fédération Nationale des Travaux Publics
Represented by Patrick Bernasconi, Chairman

Fédération Française du Bâtiment
Represented by Didier Ridoret, Chairman

Julien Brami
Deputy Director and Head of the Financial Services Division, Investments Department, Finance and Business Development Department of Caisse des Dépôts

Jean-Pierre Brunel
Attorney-at-law

Philippe Duron
Member of Parliament, Mayor of Caen

Édouard Philippe
Mayor of Le Havre, General Councillor and Chairman of Communauté de l'Agglomération Havraise

Jean-Pol Henry
Honorary Member of the Chamber of Representatives (Belgium)

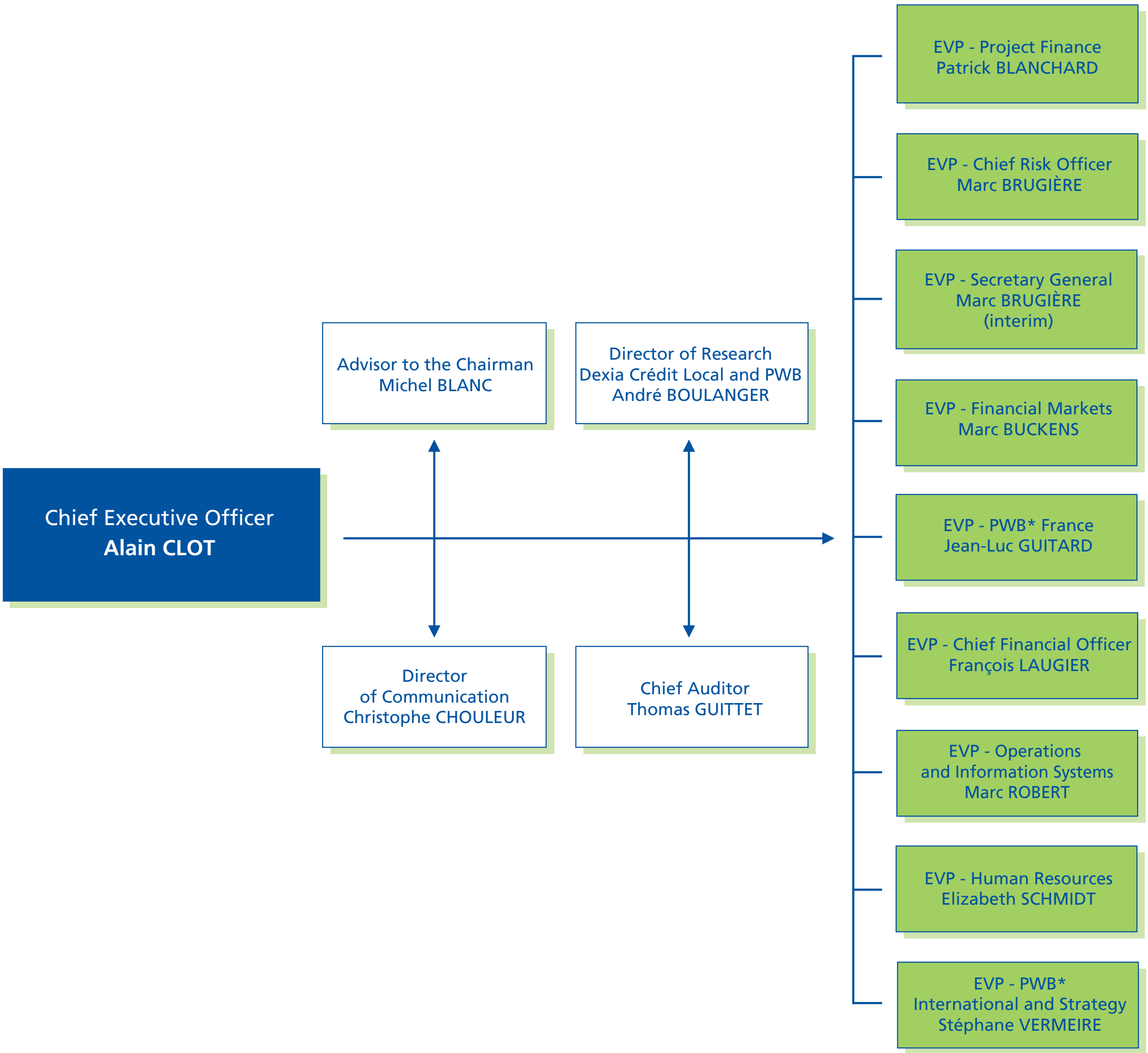
Pierre Mariani
Chief Executive Officer of Dexia SA,
Chairman of the Management Board of Dexia SA

Philippe Rucheton
Chief Financial Officer of Dexia SA,
Member of the Management Board of Dexia SA

Francine Swiggers
Chairman of the Management Board of the Arco Group

René Thissen
Honorary Member of Parliament, Wallonia (Belgium)

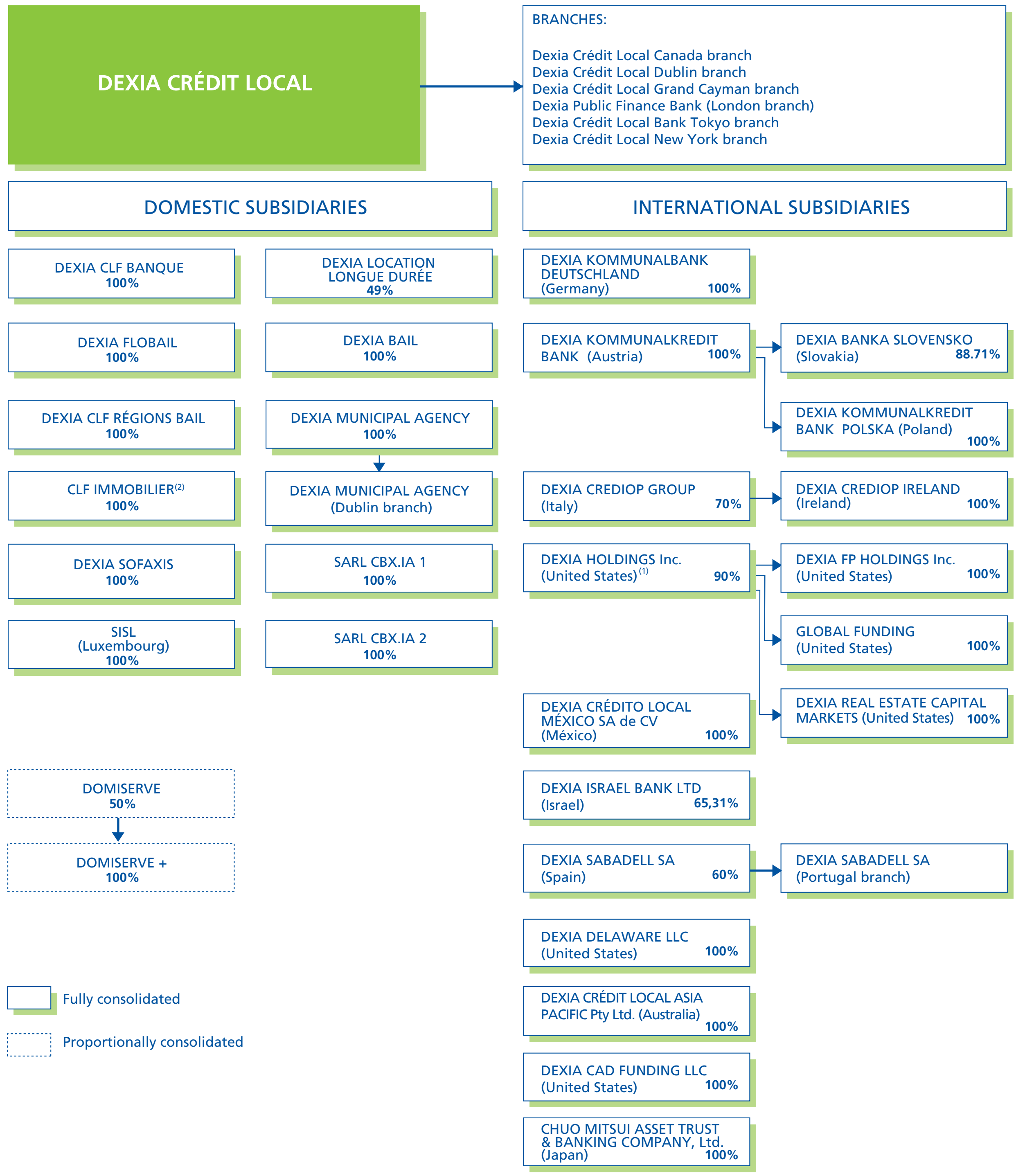
Organisational chart (March 2011)



Members of Management Board

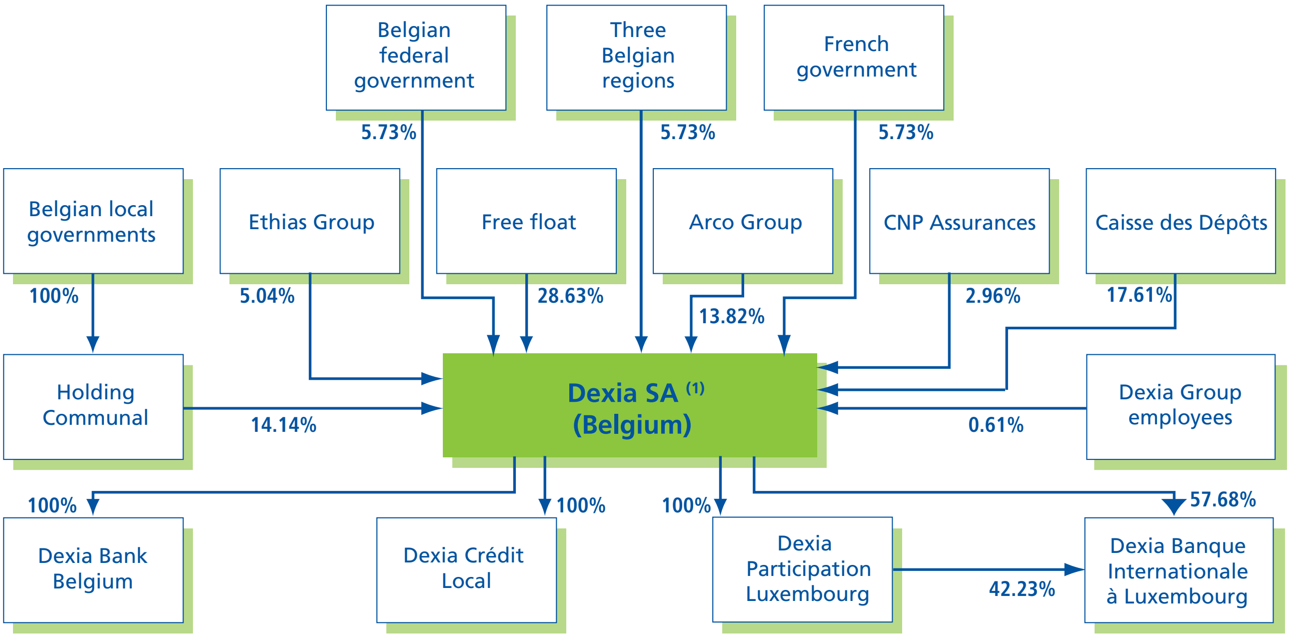
* Public and Wholesale Banking

Principal subsidiaries and affiliated companies



(1) The remaining 10% is held by Dexia SA.
(2) Ex-Dexia CLF Immo.

Dexia Crédit Local within the Dexia Group



(1) Dexia shares are traded on Euronext Brussels and on the Luxembourg Stock Exchange.

2 – Management report

Business review

1. Overview

Continuing on from 2009, fiscal 2010 featured the ongoing implementation of the Dexia Group's transformation plan at Dexia Crédit Local. Following the sale of FSA's credit enhancement business in 2009, Dexia Crédit Local's restructuring efforts continue to focus on reducing costs, improving the risk profile, in particular by deleveraging the balance sheet, and refocusing on core markets.

One of the highlights of the year was the European Commission's approval in February 2010 of the support plan extended by the Belgian, French and Luxembourg governments. With this move, the European Commission confirmed Dexia's long-term viability and approved its restructuring plan. For Dexia Crédit Local, this restructuring plan requires the disposal of its Italian and Slovak subsidiaries by 31 October 2012 and that of its Spanish subsidiary by 31 December 2013.

These disposals come in addition to the run-off management of numerous international entities initiated in 2009 as part of refocusing on countries where Dexia has a viable commercial position, long-term funding capacity and a potential for profitable growth. In other countries, namely the United Kingdom, United States and Canada, Dexia will continue to operate but will focus on niche businesses that consume little equity and are compatible with its new strategy. The Bank's balance sheet is now divided analytically into the "Core Market" and the "Legacy Portfolio", the latter comprising all of the operations placed in run-off.

New lending was voluntarily kept low during the year, with only EUR 6.1 billion in new commitments in 2010, compared with EUR 7 billion in 2009 and EUR 44.3 billion in 2008.

As at 31 December 2010, long-term commitments were 7% lower year on year at EUR 211 billion. The decrease was particularly pronounced in the Legacy Division. A total of EUR 23 billion in non-strategic bonds and loans was sold off in 2010. With total transfers of EUR 18 billion in 2009, outstanding loans were down 23% as at 31 December 2010 at EUR 31 billion (-29% at constant exchange rates). In the Core Market, outstanding loans were slightly lower year on year at EUR 180 billion (-2.5%, and -3.1% at constant exchange rates).

Insofar as funding is concerned, while conditions for access to primary bond markets improved overall in 2009 they were rather mixed in 2010. The increase in sovereign risk in Europe in particular led the market to shut down temporarily in the second and fourth quarters. In this environment, the Dexia Group issued securities totalling EUR 44.4 billion in 2010, including EUR 42.1 billion for the Dexia Crédit Local Group. The 2010 funding programme was carried out primarily through issues bearing central government guarantees and sustained recourse to covered bond vehicles.

The combination of an active asset disposal policy, a rapid implementation of the long-term financing programme in 2009 and 2010, and an alignment of the new commitments of the Public and Wholesale Banking business with the Dexia Group's long-term funding capacity allowed the Bank to reduce its liquidity risk profile significantly. Finally, at the end of June 2010 Dexia was able to completely exit the State guarantee mechanism on its funding, as previously agreed with the European Commission.

Business review by location

A. FRANCE: SPECIALIST WITH AN EXPANDED PRODUCT OFFERING

As announced during the Investor Days event in October 2010, Dexia Crédit Local's goal in the French local public sector market is to be a highly selective, profitable and recognised specialist, with a broader product offering (thanks notably to developments in the areas of insurance, asset management and payment systems, etc.).

On 30 September 2010, the Group announced a partnership with Crédit Mutuel-CIC to provide a shared platform for commercial banking and related features. Thanks to the industry expertise of its partner, Dexia Crédit Local will benefit from premier banking services, which will allow it to provide its customers with a broad, high-performance range of services.

Insofar as financing is concerned, new commitments to Public and Wholesale Banking customers were slightly higher year on year at EUR 3,744 million (+1.1%). Dexia Crédit Local's total commitments declined 0.6% year on year to EUR 82 billion as at 31 December 2010.

B. INTERNATIONAL

Germany: key role in the funding of the Dexia Group

In Germany, Dexia Kommunalbank Deutschland is one of the pillars of the Dexia Group's funding through the issuance of pfandbriefe-type covered bonds, using regular transfers of assets originated in the Group's other core countries. In 2010, Dexia Kommunalbank Deutschland sold nearly EUR 6 billion in long-term issues.

In a very complementary fashion, at the end of the year the subsidiary launched a deposit-taking business centred around innovative products already used by other Group entities; results were very encouraging, as Dexia Kommunalbank Deutschland was able to take in deposits of EUR 800 million in less than a year.

North America (United States and Canada): continuing commercial and organisational changes

All of the US front office staff were grouped together under common management in 2010. This allowed the customer services offering to be reviewed through a comprehensive assessment of all activities maintained subsequent to the crisis.

This assessment, together with the maintenance of a highly selective commercial policy – notably in terms of profitability and term – led Dexia Crédit Local to focus even more on the project finance business.

United Kingdom: reorganisation and refocusing of commercial strategy

Following a review of the Group's strategy and organisation in the United Kingdom, the decision was made to transfer all assets to Dexia Crédit Local Paris and to focus the efforts of the local front office staff on project finance and administration of existing outstanding loans: as at 31 December 2010, one-third of all assets had already been transferred to Paris.

Iberian Peninsula: confirmation of the strength of the Group's commercial position

In an economic environment made more complex by the sovereign debt crisis, Dexia Sabadell confirmed its role as a major player in the local financing and local project finance markets, while applying a selective commercial policy designed to make best use of all available resources.

Dexia Sabadell's debt restructuring business also remained strong. The total volume of debt restructured rose year on year to EUR 1.06 billion in 2010.

These results demonstrate the quality of the Group's commercial position, which is proving resilient under ever-changing economic conditions.

Italy: continuing commercial diversification

In 2010, the use of borrowing in the Italian public sector was limited due to the debt restrictions imposed by the central government. Dexia Crediop still managed to enhance the strategy initiated in 2009 of broadening the bank's range of products and services by continuing to invest commercially in its deposits and short-term financing businesses.

Dexia Crediop carried out a significant volume of short-term financing transactions during the year (EUR 440 million), primarily through purchases of receivables related to the healthcare sector. Also, new long-term lending amounted to EUR 398 million in 2010.

Finally, like every other Dexia Group entity, Dexia Crediop focused on improving its liquidity position by identifying and diversifying its local sources of funding and selling off non-strategic assets. In 2010, Dexia Crediop sold off EUR 1.6 billion in assets and sourced total medium- and long-term funding of EUR 667 million.

Israel: satisfactory continuity of commercial operations

Dexia Israel continued to assert its role as the bank of reference for local governments, based on its experience in account management, the transfer of government grants and the taking of deposits.

The subsidiary also maintained its funding autonomy, selling several issues under favourable conditions and with strong demand.

Slovakia: sale scheduled for early 2011

Since January 2009, all of Dexia banka Slovensko's commercial operations have been reporting to the Retail and Commercial Banking (RCB) business line(1). Business was generally good for Dexia banka Slovensko in 2010, with outstanding commercial loans on the balance sheet increasing 11% year on year to EUR 1,851 million as at 31 December. However customer deposits fell to a low of EUR 1,662 million as at 31 December 2010, a decline of 11% over the previous year, due to the reduction in the level of tax revenues received by Slovak local governments in 2010.

As part of the commitments it made to the European Commission in February 2010, Dexia has undertaken to sell its 88.71% stake in Dexia banka Slovensko before 31 October 2012. On 11 November 2010, Dexia and Penta Investments Limited (a group of Slovak private equity investors) signed an agreement of sale. The transaction is expected to close during the first half of 2011.

C. ENTITIES IN RUN-OFF

Australia

After careful study, the decision was made to transfer the entire asset portfolio to Dexia Crédit Local Paris and then close the Australian entity. The roadmap had nearly been completed by the end of the year, and Dexia Crédit Local Asia Pacific is expected to be liquidated in 2011.

Central and Eastern Europe (excluding Slovakia)

With the exception of Dexia banka Slovensko, all of the entities in Central and Eastern Europe have ceased all commercial activity. Existing outstanding loans – many of which have already been transferred to the Dexia Crédit Local Paris information systems – are administered by small local teams that are coordinated from Vienna. Fiscal 2010 was devoted to continuing the various asset reduction programmes, and total outstandings fell by 12.1% during the period.

Japan

The Dexia transformation plan approved by the European Commission led to the decision to close the Japanese branch. To prepare for this closure under the best possible conditions, the entity first started to sell off all of the loans and bonds on its balance sheet. Assets with a total value of over EUR 8 billion were sold, reducing the Japan branch's balance sheet to approximately EUR 1.4 billion at year-end. These assets were sold with only limited losses, in the light of their high quality and the continuing strength in 2010 of the secondary market for loans and securities in Japan. If this trend continues in early 2011, the branch could be closed before the end of the year.

Mexico

The local entity will now merely carry the remaining assets on its balance sheet; the administration of these assets has been transferred to the Dexia Crédit Local New York branch.

Sweden

The entity was closed on 19 March 2010.

Switzerland

The company is in liquidation, and is expected to be closed during 2011.

(1) The summary tables for new lending and outstanding loans (point 2) of this business review for the past year therefore do not include data for Dexia banka Slovensko.

2. Public and Wholesale Banking (PWB)

New long-term lending was voluntarily kept low during the year, with only EUR 6.1 billion in new commitments in 2010, compared with EUR 7 billion in 2009 and EUR 44.3 billion in 2008. France accounted for 62% of all new loans, while business in the other countries was either sharply lower (Spain and Italy) or maintained at relatively low levels (North America and the United Kingdom), reflecting a selective approach to extending new commitments.

As at 31 December 2010, long-term outstanding loans in the Core Market were 2% lower year on year at EUR 180 billion. Outstanding loans remained fairly stable in France (-0.6%), while the largest declines were observed in Italy (-6.4%) and Germany (-7.7%), reflecting the decrease in business ever since late 2008.

PWB outstandings in run-off (Legacy PWB) were sharply lower (-25.5%) at EUR 31 billion. The main decreases were seen in the United States (EUR -5 billion) due to the impairment recognised on the portfolio, and Japan (EUR -5 billion) due primarily to the active asset sale programme. Total outstanding loans on the Bank's international operations managed from the Head Office (International Headquarters) are increasing, as the loan portfolio transferred from the Australian entity is now recognised by the International Headquarters.

Public and Wholesale Banking

	Oustanding long-term loans			New long-term lending		
(EUR millions)	31/12/2009	31/12/2010	Change	31/12/2009	31/12/2010	Change
CORE MARKETS	**184,618**	**179,991**	**-2.5%**	**6,885**	**6,143**	**-10.8%**
o.w. Local Public Sector	156,692	152,120	-2.9%	5,515	4,724	-14.3%
o.w. Project Finance	27,926	27,871	-0.2%	1,370	1,418	+3.6%
France	82,303	81,846	-0.6%	3,702	3,744	+1.1%
Italy	35,987	33,701	-6.4%	686	398	-41.9%
United States and Canada (excl. SBPA)	6,962	7,165	+2.9%	318	411	+29.4%
Iberian Peninsula (Spain and Portugal)	16,916	16,889	-0.2%	1,593	1,150	-27.8%
Germany	23,759	21,926	-7.7%	3	0	-100.0%
United Kingdom	12,381	12,835	+3.7%	159	246	+54.5%
Israel	894	1,143	+27.9%	172	158	-8.3%
International Headquarters (Project Finance)	5,415	4,487	-17.1%	253	36	-85.8%
LEGACY PORTFOLIO PWB	**42,230**	**31,462**	**-25.5%**	**97**	**0**	**-100.0%**
Japon	5,073	478	-90.6%	55	0	-100.0%
International Headquarters (Public Banking)	7,845	8,923	+13.7%	0	0	–
Central and Eastern Europe	2,255	1,982	-12.1%	43	0	-100.0%
Australia	1,376	0	-100.0%	0	0	–
Mexico	1,136	1,274	+12.1%	0	0	–
United States (SBPA)	24,545	18,804	-23.4%	0	0	–
TOTAL DEXIA CRÉDIT LOCAL	**226,848**	**211,453**	**-6.8%**	**6,982**	**6,143**	**-12.0%**

2.1. Local public sector

Total new lending to the local public sector was down 14.3% year on year to EUR 4,724 million. This sharp decline is attributable primarily to the Bank's international operations: new lending fell by 49.6% in Italy and 27.5% in Spain, and was practically nil in the United States, United Kingdom and Germany. The fall-off in the French market was much more moderate, as new lending declined by only 4.2% to EUR 3,498 million. The decrease in new commitments had only a slight impact on long-term outstanding loans, which amounted to EUR 152,120 million as at 31 December 2010 (-2.9%, and -3.3% at constant exchange rates).

Local public sector

	Oustanding long-term loans			New long-term lending		
(EUR millions)	31/12/2009	31/12/2010	Change	31/12/2009	31/12/2010	Change
CORE MARKETS	**156,692**	**152,120**	**-2.9%**	**5,515**	**4,724**	**-14.3%**
France	77,283	75,947	-1.7%	3,653	3,498	-4.2%
Italy	30,933	28,979	-6.3%	432	218	-49.6%
United States and Canada (excl. SBPA)	3,121	2,894	-7.3%	38	0	-100.0%
Iberian Peninsula (Spain and Portugal)	12,583	12,794	+1.7%	1,173	851	-27.5%
Germany	23,088	21,348	-7.5%	3	0	-100.0%
United Kingdom	8,790	9,015	+2.6%	45	0	-100.0%
Israel	894	1,143	+27.9%	172	158	-8.3%

BUSINESS REVIEW BY LOCATION

a. France

Total new lending to the public sector declined 4.2% year on year to EUR 3,498 million, and total outstanding loans were down 1.7% to EUR 76 billion as at 31 December 2010.

In 2010, total new lending to local governments was down 3.4% to EUR 2,193 million, 36% of which is attributable to loans extended under the protocol signed with the representative trade associations of the building and public works industry for the "BPW professional stimulus plan". Total outstanding loans to local governments continued the decline that first began in 2009, falling another 2.5% during the year to EUR 49.6 billion.

Total new lending to the other segments of the local public sector market was 5.6% lower year on year at EUR 1,304 million: 54% of this was carried out with funding provided by the Caisse des Dépôts (after being classified as PLS-type loans to promote affordable rental housing) and the European Investment Bank (EIB) or under the terms of the protocol signed by the representative trade associations of the building and public works industry. Total outstanding loans to these markets were stable (+0.3% year on year) at EUR 21.8 billion as at 31 December 2010:

- total new lending to the healthcare sector was down 16.2% year on year to EUR 485 million, of which 51% was funded by the EIB or under PLS-type loans. Total outstanding loans amounted to EUR 10.4 billion as at 31 December 2010, a 2.6% increase over the previous year because of drawings made under the long-term financing lines set up in connection with the "Hospital 2007" plan;

- total new lending to the social public housing and urban development sector was down 3% year on year to EUR 725 million, of which 63% was funded by PLS-type loans, under the BPW programme or by the EIB. Total outstanding loans fell slightly (-0.9%) year on year to EUR 9 billion as at 31 December 2010.

The total volume of debt restructured in 2010 amounted to EUR 4,865 million, a 7% increase over 2009 due almost entirely to the management of outstanding "structured" loans.

Structured loans accounted for 5.2% of total new lending in 2010 (EUR 180 million, versus EUR 210 million in 2009). Dexia Crédit Local bases its definition of structured loans on the concepts contained in the "Code of conduct between banking institutions and local governments", the so-called "Gissler Charter". This document, which was prepared at the request of the French government by Eric Gissler, a General Inspector of Finance, was signed on 7 December 2009 by a number of associations representing local governments (Association of French Mayors, Federation of Mayors of Mid-sized Cities, Association of Small French Cities, Association of Mayors of Large French Cities, and the Assembly of French Municipalities) and by four banking institutions, including the Dexia Group. Dexia Crédit Local has committed to the principles espoused in this document.

Accordingly, in the present report, structured loans are defined as:

- all loans whose structures are included in categories B to E of the Gissler Charter;

- all loans whose marketing is banned by the Charter due to their structure (i.e. leverage > 5, etc.), the underlying index(es) used (i.e. foreign currency, commodities, etc.) or their currency of exposure (loans denominated in CHF, JPY, etc.);

- with the exception of all loans whose structured phase has ended and whose interest rate is either fixed or is a simple and definitive variable rate.

Under this definition, total outstanding structured loans amounted to EUR 23.55 billion as at 31 December 2010, with an average interest rate paid of 3.65%.

Structured Loans

Total outstanding loans as at 31 December 2010	EUR 23.55 billion
Average interest rate paid in 2010	3.65%
Average interest rate paid in 2010 by highest 10% of customers concerned (1)	5.35%
Average interest rate paid in 2010 by lowest 10% of customers concerned (2)	0.97%

(1) Highest 10%: the average rate paid by the 10% of customers who paid the highest rate was 5.35% in 2010.
(2) Lowest 10%: the average rate paid by the 10% of customers who paid the lowest rate was 0.97% in 2010.

b. Spain

Total outstanding loans were 1.7% higher year on year to EUR 12.8 billion as at 31 December 2010, even though new lending to the public sector fell 27.5% year on year to EUR 851 million.

c. Italy

Outstanding loans were considerably lower year on year at EUR 29 billion (-6.3%), due to the high volume of asset sales and, to a lesser extent, the 49.6% drop in new long-term commitments to EUR 218 million.

d. Israel

New lending, all of which was to local governments, was slightly lower at EUR 156 million, but against the background of a general contraction of the market.

2.2. Project finance

Dexia Crédit Local closed 50 transactions during the year. The Bank acted as Financial Advisor, Lead or Co-Lead Manager on nearly 90% of all financings. Dexia also serves as Agent and Registrar Bank on 12 of the transactions.

Dexia arranged total project financings of EUR 12 billion in 2010, and took total new commitments of EUR 1,350 million on its balance sheet.

An analysis of originations by sector shows that 26% were for renewable energy (wind and solar), 23% for conventional energy (electricity generation and transmission), 20% for road transport (primarily public-private partnerships, or PPPs) and 20% for social infrastructure (PPP-financed building in the areas of education, justice and healthcare). All other sectors accounted for 11% of the total.

In early 2011, several projects whose financing was arranged by Dexia were recognised by Thomson Reuters/PFI Magazine:

- European Renewables Deal of the Year" for C-Power (financing of a wind farm in the North Sea). On this deal, for the extension of the existing wind farm and the refinancing of the first phase, Dexia acted as Financial Advisor (on the first phase), Co-Arranger for the financing and interest rate hedging, and Agent for the syndicate of lenders;
- "Europe Telecoms Deal of the Year" for GSMR (design, execution and maintenance for Réseau Ferré de France [French rail network] of the new dedicated voice and data system for the rail network). GSMR will cover 14,000 km of railway tracks and ensure the interoperability of the French rail network with the rest of Europe. Dexia co-arranged the financing and the interest rate hedging;
- "European PPP Deal of the Year" for Birmingham Highways, for which the city outsourced the maintenance of its road network and signage to a private partner. Dexia co-arranged the financing and interest rate hedging;
- "Americas PPP Deal of the Year" for the McGill University Health Centre, for the design and construction of a new hospital for the university hospital centre in Montreal. Dexia co-arranged the bank financing and interest rate hedging, and acted as Underwriter for the bond issue;
- "Africa Telecoms Deal of the Year" for O3B ("other three billion people": launch of a fleet of satellites for providing internet access in emerging countries, a project undertaken by a group of investors led by the Luxembourg satellite company SES). Dexia co-arranged the financing and interest rate hedging. Dexia Banque Internationale à Luxembourg (Dexia BIL) will also serve as Registrar for the special purpose entity.

Due to the low level of new commitments, outstanding loans were slightly lower year on year at EUR 27,871 million (-0.2%, and -1.7% at constant exchange rates).

Project finance

	Oustanding long-term exposure			Long-term originations		
(EUR millions)	31/12/2009	31/12/2010	Change	31/12/2009	31/12/2010	Change
CORE MARKETS	**27,926**	**27,871**	**-0.2%**	**1,370**	**1,418**	**+3.6%**
France	5,020	5,899	+17.5%	49	246	x5
Italy	5,054	4,722	-6.6%	253	180	-28.8%
United States and Canada (excl. SBPA)	3,841	4,270	+11.2%	280	411	+46.8%
Iberian Peninsula (Spain and Portugal)	4,334	4,095	-5.5%	420	299	-28.8%
Germany	671	578	-13.8%	0	0	–
United Kingdom	3,591	3,819	+6.4%	114	246	x2
Israel	0	0	–	0	0	–
International Headquarters	5,415	4,487	-17.1%	253	36	-85.8%

BUSINESS REVIEW BY LOCATION

a. France

Dexia Crédit Local participated in two PPPs in the infrastructure sector:

- financing of 63 road maintenance and intervention centres on behalf of the Ministry of Ecology, Sustainable Development, Transport and Housing;
- financing of the dedicated mobile telecommunications network for the French rail network on behalf of Réseau Ferré de France (award-winning transaction, see above).

Dexia Crédit Local was also selected as Financial Advisor for the consortia bidding on RFPs for the PPP projects for the new headquarters of the Ministry of Defence and the Nîmes-Montpellier high-speed train line.

In the renewable energy sector, Dexia Crédit Local financed:

- a set of wind farms in northern France;
- two photovoltaic solar farms in south-western France.

In the conventional energy sector, Dexia Crédit Local participated in a financing that allowed Électricité de France to monetise its long-term sales of electricity to its largest industrial customers.

In the environment sector, Dexia Crédit Local financed a waste treatment plant in Normandy.

Dexia Crédit Local took total commitments of EUR 250 million on these five transactions.

Finally, it should be noted that Dexia Crédit Local sold a wind farm that it owned in Normandy, at a profit.

b. International

North America

In the renewable energy sector, Dexia Crédit Local financed:

- five wind projects in the United States (Washington, Texas, Virginia, Oregon and Nebraska);
- three photovoltaic solar projects in the Canadian province of Ontario.

Dexia Crédit Local also participated in the financing of two natural gas-fired power plants in Arizona and California.

In the transportation sector, Dexia Crédit Local financed a PPP for a highway project in Ontario.

In the social infrastructure sector, Dexia Crédit Local also financed a PPP for a university hospital in Canada (province of Quebec) and also acted as Co-Lead Manager on a bond issue for this project (award-winning transaction, see above).

Dexia Crédit Local took total commitments of USD 540 million (EUR 411 million) on these transactions.

Finally, Dexia Crédit Local advised J-POWER on the acquisition of two power plants.

United Kingdom

Dexia Crédit Local financed seven PPP projects for a total commitment of GBP 210 million (EUR 246 million): six school projects and the renovation and maintenance of the city of Birmingham's road network (award-winning transaction, see above).

Dexia Crédit Local also participated (while reducing its commitments) in the refinancing of a leading operating lessor of rolling stock in the United Kingdom, which also allowed the Bank to act as Co-Manager on the bond portion of the transaction.

Italy

In the renewable energy sector, Dexia Crediop financed four photovoltaic solar projects (Sicily, Puglia, Latium and Veneto) for a total commitment of EUR 149 million.

Iberian Peninsula

In the transportation sector, Dexia Sabadell participated in the financing of:

- three highway projects (two under a shadow toll system and one in a pre-financing of the payments to be received from public authorities);
- the PPP for the extension of Barcelona's metro line number 9;
- a tram for the city of Castellon.

Dexia Sabadell also acted as Financial Advisor to the SPE for the renegotiation of the concession for the Perpignan-Figueras rail link.

In the social infrastructure sector, Dexia Sabadell financed two PPPs:

- construction and operation of a prison in Catalonia;
- renovation of a hospital in Ibiza.

In the environment sector, Dexia Sabadell financed an industrial waste landfill in the Saragossa region and refinanced a desalination plant in Majorca.

In the energy sector, Dexia Sabadell financed an undersea gas storage project and a photovoltaic solar facility in the region of Villanueva.

Dexia Sabadell took total commitments of EUR 300 million on these transactions.

Germany, Belgium and Luxembourg

In the conventional energy sector, Dexia Crédit Local financed (jointly with Dexia Bank Belgium) the acquisition of a German electricity transmission operator in Belgium by the Belgian company Elia. This transaction was refinanced through a bond issue that Dexia co-managed. Dexia Crédit Local also financed the construction of a gas pipeline supplying Russian gas to Germany.

In the renewable energy sector, Dexia Crédit Local:

- participated (alongside Dexia Bank Belgium, which booked the commitment) in arranging the financing for the extension of an offshore wind farm off the coast of Ostend and refinancing the existing facility (award-winning transaction, see above);
- financed a German offshore wind farm. This was the first deal of its kind put together in Germany using project financing.

In the infrastructure sector, Dexia Crédit Local worked with Dexia Bank Belgium (which booked the commitment) on the financing of schools in the German-speaking community of Belgium.

Dexia Crédit Local also participated in structuring the financing of telecommunications satellites (award-winning transaction, see above). This commitment was booked by Dexia Bank Belgium.

Dexia Crédit Local's total net commitment on all of these transactions (excluding Dexia Bank Belgium and Dexia BIL) amounted to EUR 35 million.

2.3. Dexia Sofaxis

STATUTORY INSURANCE

The estimated premiums written in 2010 were comparable to those of 2009 (EUR 319 million). The lower rates practiced by insurers in a highly competitive market also had an adverse impact on the portfolio, but very active prospecting in the various segments of the market limited the effect of this downward trend, which was more pronounced for those local governments not affiliated with an administrative centre for the sub-national public service and for the hospital sector. Still, slower growth in salary increases for the sub-national public service generated an automatic decrease in the adjustment of estimated premiums to actual. In 2010, annual premiums totalled EUR 340 million.

The 2010 marketing campaign confirmed Dexia Sofaxis's leading position with local governments, with the gain of a new major administrative centre in the Côtes d'Armor department.

The company's marketing efforts were also marked by a significant revision of rates, following the net increase in claims borne by insurers, thereby lowering their technical results.

The related services business continued to grow significantly:

- the medical control activity was up by over 10%, reaching more than 16,000 acts in 2010;
- the recourse against responsible third parties business increased by 5%;
- psychological assistance cases were sharply higher (+30%) in 2010.

SERVICES

Services rendered to major local governments continue to grow in areas related to both health in the workplace and the optimisation of the organisation and administration of human resources. The selection of tenders processed increased revenues by processing significantly fewer cases.

The largest contracts were signed with La Poste, Syndicat intercommunal pour l'assainissement de l'agglomération parisienne and Institut National de la Protection Industrielle (INPI).

PUBLISERVICES

Dexia Sofaxis is developing a commercial offer through its PubliServices subsidiary in the fields of supplemental health, accidental death and disability, and social action for public employees. The company has already won five significant requests for proposals by administrative centres. This market appears promising and constitutes a major potential source of revenue growth for Dexia Sofaxis.

3. Funding provided by Public and Wholesale Banking clientele

Total deposits for the Public and Wholesale Banking business line amounted to EUR 6 billion as at 31 December 2010, up 10% from the previous year:

- in France, total deposits declined 7% year on year to EUR 2.9 billion as at 31 December 2010, including EUR 0.3 billion in demand deposits, EUR 1.4 billion in term deposits and EUR 1.2 billion in certificates of deposit and medium-term notes (MTN) issued by Dexia Crédit Local and marketed by Dexia CLF Banque;

- in Israel, total deposits increased 32% year on year to EUR 1.4 billion, including EUR 0.5 billion in demand deposits, EUR 0.3 billion in term deposits and EUR 0.6 billion in certificates of deposit;

- in Italy, total deposits were down 16% year on year to EUR 0.5 billion, and consisted nearly entirely of demand deposits;

- on the Iberian Peninsula, total deposits were down 8% year on year to EUR 0.4 billion, and consisted nearly entirely of demand deposits;

- in the United Kingdom, there are no longer any term deposits (EUR 0.14 billion as at 31 December 2009);

- in Germany, term deposits are growing strongly and increased to EUR 740 million as at 31 December 2010 from EUR 71 million the previous year;

- in the United States, term deposits rose to EUR 69 million as at 31 December 2010 from EUR 48 million the previous year.

The off-balance sheet products credited to the Public and Wholesale Banking business line declined 10% year on year to EUR 3.1 billion, including EUR 2.2 billion in Dexia Asset Management products (Sicav-type investment companies, mutual funds, etc.), EUR 0.6 billion in certificates of deposit and medium-term notes (MTN) issued by investors other than Dexia Crédit Local and EUR 0.3 billion in other off-balance sheet products.

4. Long-term funding

Senior debt (EUR millions)	**New issues in 2009**	**New issues in 2010**		
		Total	**Guaranteed**	**Non-guaranteed**
France				
Dexia Municipal Agency	7,960	6,785	-	6,785
Dexia Crédit Local	20,805	19,149	16,714	2,435
Italy				
Dexia Crediop	913	1,171	-	1,171
Germany				
Dexia Kommunalbank Deutschland	4,172	6,192	-	6,192
United States				
Dexia Crédit Local New York Branch	-	8,850	6,467	2,383
TOTAL	**33,850**	**42,147**	**23,181**	**18,966**

After generally improving in 2009, conditions of access to primary bond markets were rather mixed during 2010. Despite several windows during which bonds could be issued, the increase in sovereign risk in Europe had an adverse effect on spreads and led the market to shut down temporarily in the second and fourth quarters. Volumes were generally lower versus the full 12 months of 2009.

The euro-denominated covered bond market saw an historically high volume of issues (EUR 181 billion) in 2010, under the dual impacts of the support provided by the European Central Banks' EUR 60 billion purchase programme in the first half of the year and the proliferation of new issuers turning to this market for a source of long-term funding. The first quarter was particularly active, with EUR 67 billion issued, while the second saw nearly a month of total inactivity (all issuance formats combined) before the European Central Bank, the European Union and the International Monetary Fund announced their plan to support European sovereign issuers. During the second half, after a relatively moderately active summer, the pace of new issues increased significantly in September before grinding to an abrupt halt at the end of November due to the resurgence of European sovereign risk. Nearly 60% of all euro-denominated covered bond issues came from France, Germany and the Scandinavian countries, with a reaffirmed presence of the German and French investor bases. Outside the eurozone, the major notable development was the emergence of demand from US investors, which helped launch the inaugural US Rule 144a[(1)] format issues of Canadian, French and Scandinavian paper.

In the senior unsecured market, supply was significantly lower than the previous year (EUR 185 billion, compared with EUR 297 billion issued in 2009). This decrease was attributable primarily to more difficult market conditions during the demonstrations of distrust vis-à-vis European sovereign risk. Moreover, the decrease in volume was especially noticeable in the senior secured segment due to the end of most state guarantee schemes and the reopening of other market segments since mid-2009.

In this environment, the Dexia Group issued EUR 44.4 billion in 2010, including EUR 42.1 billion for the Dexia Crédit Local Group. In order to ensure the success of the 2010 funding programme, it was carried out primarily through issues bearing central government guarantees and sustained use of covered bond vehicles.

ISSUES WITH GOVERNMENT GUARANTEES

2010	**Dexia Crédit Local (consolidated)**
Public issues	EUR 20.14 billion
Average maturity	3.3 years
Private placements	EUR 3.04 billion
Average maturity	2.8 years

After actively issuing guaranteed funding in 2009, in 2010 the Group wanted to ensure as quickly as possible the successful procurement of a significant portion of its long-term funding through active recourse to issues secured by central government guarantees. Taking advantage of the change in the guarantee programme allowing an extension of the guarantee to maturities of four years, and as the Group's restructuring plan was approved by the European Commission in early February, Dexia Crédit Local was very active, selling total guaranteed issues of EUR 23.2 billion, over EUR 16 billion of which during the first quarter. It should also be noted that, in accordance with its commitments to the European Commission, the Dexia Group exited the central government guarantee scheme in June 2010, four months before the formal 30 October 2010 deadline.

The Group turned to several different markets, with 12 public issues denominated in both euros and other currencies (USD, GBP, CHF and JPY). Dexia Crédit Local carried out all of the Group's guaranteed funding issues, while the New York Branch handled the Rule 144a-type dollar-denominated issues.

In all, Dexia Crédit Local raised a total of EUR 23.2 billion in 2010 with an average maturity of 3.2 years.

Management report

(1) The Rule 144a format enables non-US issuers to sell securities to US Qualified Institutional Buyers without having to be registered with the Securities and Exchange Commission.

ISSUES AND FUNDING WITHOUT GOVERNMENT GUARANTEES

a. Covered bond issues

2010	Dexia Municipal Agency	Dexia Kommunalbank Deutschland	Dexia Crédit Local (consolidated)
Public issues	EUR 4,847 million	EUR 3,750 million	EUR 8,597 million
Average maturity	8.0 years	4.5 years	6.5 years
Private placements	EUR 1,939 million	EUR 2,339 million	EUR 4,278 million
Average maturity	12.6 years	12.1 years	12.4 years

While 2009 was marked by the reopening of the primary market for covered bonds, with Dexia Municipal Agency and Dexia Kommunalbank Deutschland raising respectively EUR 7.9 billion and EUR 4.1 billion, fiscal 2010 was marked by a strong supply from these two issuers allowing the Dexia Group to lengthen the duration of its funding.

In total, Dexia Municipal Agency and Dexia Kommunalbank Deutschland were able to sell eight benchmark issues. In the first half, Dexia Municipal Agency turned to investors on three occasions for benchmark issues of EUR 1 billion each, with maturities of 12, 8 and 5 years. During the second half, Dexia Municipal Agency turned to the primary market by launching an exchange offer, the first of its kind in the covered bond segment. The offer enabled the issuer to round out its public benchmark yield curve by adding two new points at 5 and 10 years. In addition to this benchmark activity, Dexia Municipal Agency increased four EUR issues and one CHF issue. Finally, private investment flows remained strong, at EUR 1.9 billion. In all, Dexia Municipal Agency raised a total of EUR 6.8 billion in 2010 with an average maturity of 9.3 years.

Dexia Kommunalbank Deutschland took advantage of the significant depth of the pfandbriefe market to launch three benchmark issues, one at 7 years (EUR 1.25 billion) and two at 3 years (EUR 1 billion each). Dexia Kommunalbank Deutschland also turned to investors twice on non benchmark issues (EUR 500 million) while working the private placement segment actively (EUR 2.4 billion). In all, Dexia Kommunalbank Deutschland raised a total of EUR 6.1 billion in 2010 with an average maturity of 7.4 years.

Overall, Dexia Crédit Local's covered bond issuers raised a total of EUR 12.9 billion over the period under review, with an average maturity of 8.4 years.

b. Unsecured issues

2010	
Dexia Crédit Local	EUR 1,832 million
Average maturity	3.0 years
Dexia Kommunalbank Deutschland	EUR 102 million
Average maturity	9.3 years
Dexia Crédit Local New York branch	EUR 37 million
Average maturity	9.7 years

Although declining, the primary market for senior debt remained active in 2010, but Dexia Crédit Local did not launch any (non-guaranteed) public issues in the light of the European Commission's pending decision expected during the first quarter and the Group's strategy of selling only central government guaranteed issues and covered bonds. Therefore, only private placements were carried out, for a total of EUR 1.971 billion with an average maturity of 3.4 years.

Retail issues

2010	Dexia Crédit Local (consolidated)
Retail issues	EUR 601 million
Average maturity	5.7 years

The Group's retail funding activity is carried by Dexia Crediop. After an active first half, during which the Bank was able to sell two issues through the network of partner banks, the increase in European sovereign risk reduced access to these retail networks and Dexia Crediop was unable to sell any issues directly through the retail networks during the second half. During the same period, however, Dexia Crediop sold EUR 208 million in new funding through the retail segment of the Italian securities exchange's Electronic Government Bond and Securities Market (MOT).

Alternative funding issues

2010	Dexia Crédit Local (consolidated)
Alternative funding issues	EUR 3,519 million
Average maturity	4.5 years

Alternative funding includes all collateralised transactions other than covered bonds.

The Dexia Crédit Local Group carried out three subsidised funding transactions with the European Investment Bank, totalling EUR 154 million (a total of EUR 87.5 million for Dexia Crédit Local and EUR 66 million for Dexia Crediop) and with an average maturity of 15.6 years.

In order to round out its long-term funding, Dexia also developed alternative funding solutions, essentially through the use of collateralised repurchase agreements.

5. Financial markets

5.1. Management of bond portfolios

The Financial products (FP) and Portfolio Management Group (PMG) portfolios are managed on a run-off basis, in order to help reduce the size of Dexia Crédit Local's balance sheet and improve its risk profile.

In 2010, the natural amortisation of these portfolios and sales of bonds accounted for EUR 8 billion and EUR 13.1 billion, respectively. The loss on disposal was limited to EUR 102 million (excluding reversals of provisions).

As at 31 December 2010, the outstandings of Dexia Crédit Local's bond portfolios represented about EUR 84.4 billion (of which EUR 10.4 billion for Financial products), with an average maturity of 13.6 years.

5.2. Cash management and short-term funding

Dexia Crédit Local's short-term liquidity needs declined sharply in 2010. Accordingly, funding from central banks went from EUR 28.5 billion to EUR 18.4 billion at year-end. Total outstandings of certificates of deposit issued by Dexia Crédit Local fell by EUR 14 billion year on year to EUR 7 billion at 31 December 2010.

It is also worth noting that after March 2010 Dexia Crédit Local did not use any guaranteed issues for its short-term funding needs. The outstanding short-term government-backed issue was paid off in full in July 2010.

5.3. Commercial operations

PUBLIC SECTOR CUSTOMERS

Debt restructuring with public sector customers picked up again considerably in 2010, after dropping off sharply in 2009: a total of 628 transactions were carried out with public sector customers (local governments, hospitals and social housing agencies) for an aggregate nominal volume of EUR 5 billion (+25% over 2009), including 558 transactions with French customers for an aggregate nominal volume of EUR 3.9 billion.

PROJECT FINANCE CUSTOMERS

Dexia Crédit Local, Dexia Sabadell and Dexia Crediop arranged 47 derivative transactions totalling EUR 1.4 billion with special purpose entities to hedge their interest rate risk (down from EUR 3.4 billion in 2009).

INSTITUTIONAL CUSTOMERS

In 2010, Dexia was Lead Manager or Bookrunner on 55 public and privately placed bond issues.

Under the terms of these mandates, Dexia Crédit Local's distribution teams sold issues totalling EUR 5.8 billion to French and German customers.

Risk management

1. Introduction

In 2010, the activities of the risk management function were strongly impacted by a very troubled economic environment, marked by high volatility in interest rates and exchange rates and a strong distrust on the part of investors towards certain sovereign issuers in the eurozone. In spite of these difficult conditions, Dexia Crédit Local and the Dexia Group continued to successfully implement their transformation plan, further reducing their risk profile and their short-term liquidity needs.

Dexia Crédit Local continued to reduce its risk profile by actively reducing the bond portfolio, as it has since late 2008. The reduction of the entire run-off portfolio resulted in a EUR 22.7 billion decrease in exposure to credit risk during the year. The weighted risks naturally followed the same trend and declined by EUR 3.9 billion during the year despite the unfavourable impact of the euro/dollar exchange rate, while the core capital (Tier 1) ratio improved to 9.4% at the end of 2010 from 8.9% the previous year. It is also worth noting a significant decrease in the cost of risk excluding that on the FP portfolio, due to the recognition of a EUR 106 million reversal in 2010 (versus a EUR 132.7 million addition to provisions in 2009).

During the year, the Group reduced its short-term liquidity gap significantly and continued to improve and diversify its sources of short-term funding. By improving its liquidity position, Dexia was able to exit the liquidity guarantee extended by the Belgian, French and Luxembourg central governments four months before the formal 30 October 2010 deadline. On 30 June 2010, the Group stopped issuing guaranteed debt, in accordance with its commitments to the European Commission. As at 31 December 2010, the outstanding guaranteed debt issued by Dexia Crédit Local amounted to EUR 41.3 billion. In 2010, the cost of the State guarantee on the Bank's short- and long-term funding was EUR 340 million.

Insofar as solvency is concerned, Dexia was subject to the stress tests performed in 2010 across the entire European Union and coordinated by the Committee of European Banking Supervisors (CEBS). Following the performance of this stress test, based on the various scenarios for the deterioration of its credit quality[(1)], it appears that Dexia would not require additional capital to withstand the CEBS's two-year "deteriorated" scenario, including were there to be a new shock brought on by the sovereign debt situation. Further details regarding the stress tests are provided in the section of this report on stress tests.

Monitoring of financial markets activities improved in 2010 with the launch of the Market Risk Engine project, whose purpose is to provide an integrated system for calculating historical Value at Risk (VaR) using all of the risk factors. Significant progress was also made in the valuation of structured instruments and back-to-back derivatives.

Development and implementation of various Group-wide projects continued as well:

- new models have been developed and will gradually be used to calculate regulatory capital;
- the stress test action plan set in place in 2010: development of a new system of governance that will strengthen and optimise the existing organisation was made a priority in 2010. Dexia also participated actively in the regulatory exercises conducted by the CEBS, the first results of which were provided by Dexia in May 2010;
- a formal framework of risk appetite indicators was set in place at the Dexia Group and Dexia Crédit Local levels;
- an action plan has been implemented to address the improvements suggested by the committee of Dexia's regulators in connection with the "Pillar 2" supervisory review process;
- the potential impacts of the regulatory changes proposed by the Bank for International Settlements (BIS) have been quantified, notably with regard to the definition of equity, leverage ratios and liquidity ratios;
- Dexia participated in international discussions regarding changes to the IFRS rules for classification and provisioning – with presentation of the exposure draft in June 2010 – and hedging of financial instruments.

(1) The exercise was carried out in accordance with the scenarios, methodology and assumptions provided by the CEBS, detailed in the comprehensive report published on the CEBS website: http://www.cbfa.be/eng/press/pdf/20100723_annbijl2_individual_publication_dexia.pdf

2. Governance

In 2010, the reorganisation of the risk management function was effectively implemented, using an approach that reflects the Dexia Group's new general organisation. It is now organised along a directive model under which the Chief Risk Officers of the international entities report directly to the Chief Risk Officer of Dexia Crédit Local, who reports directly to the Group Chief Risk Officer. Against this background, the roles of the risk management function have been revised, and the function is now responsible for definition of Dexia's risk appetite, implementation of independent and consolidated risk metrics for all types of risk, management of all risks and identification and proactive management of any emerging risk.

The function has been reorganised into cross-divisional business lines: Public and Wholesale Banking credit risk, Retail and Commercial Banking credit risk and financial risk on all Financial Markets activities. This organisation is based around knowledge centres that can be used by the local Risk Management departments, under the terms of service level agreements (SLAs) entered into in 2010.

The Chief Risk Officer of Dexia Crédit Local is also Director of Public and Wholesale Banking credit risk for the Dexia Group.

2.1. Credit risk

DEFINITION

Credit risk represents the potential loss (decrease in the value of the asset or default of payment) that Dexia Crédit Local may incur due to the deterioration of a counterparty's solvency.

ORGANISATION

The Dexia Crédit Local Risk Management department oversees Dexia Crédit Local's credit risk, under the aegis of the Management Board and a number of specialised committees. It contributes actively to the Group Risk Management department's development of the definition of the Group's credit risk policy. It defines the rules for the delegation of powers within Dexia Crédit Local and its subsidiaries and branches, and has them approved by the Group Risk Management department. It oversees the counterparty credit rating and credit proposal analysis processes and the exposure monitoring functions.

In 2010, in order to enhance its effectiveness and make the best of the expertise available within the Group, the risk management function moved toward an organisation based around specialised expert centres, in conjunction with the various Dexia business lines (Retail and Commercial Banking, Public and Wholesale Banking and Financial Markets activities). Risk committees specialised by expert centres have been established, and are coordinated by Group-wide staff and committees.

Central Analysis Cells (CAC), specialised by type of counterparty (project, corporate, bank, asset-backed securities, international public sector and country), have been established at Group level to pool available expertise and provide all Group entities – and therefore Dexia Crédit Local itself – with all of the analyses they will need. All decisions concerning these counterparties (commitments, provisioning) will remain the responsibility of the different entities and of Dexia Crédit Local in particular.

Analysis of matters not within the purview of the CACs is performed directly by Dexia Crédit Local and its subsidiaries and branches.

a. Group-wide committees

Three Group-wide committees participate in the risk management process:

- the Risk Policy Committee (quarterly) sets the rules for credit approval for the various sectors and types of counterparties;
- the Risk Executive Committee (weekly) is responsible for defining risk management strategy and the organisation of the function;
- the Management Credit Committee is responsible for commitment decisions.

The Dexia Crédit Local Chief Risk Officer is a member of the Risk Executive Committee.

b. Specialised committees by expert centre

In order to streamline the decision-making process, the Management Credit Committee delegates its decision-making authority to the Dexia Crédit Local Credit Committee for transactions pertaining to the Public and Wholesale Banking business line (this committee is chaired by the Chief Risk Officer of Dexia Crédit Local or his deputy) and to the Treasury and Financial Markets (TFM) Credit Committee organised at the Group level for all banking and insurance counterparties and for ABS. The Dexia Crédit Local Chief Risk Officer or his representative participates systematically in all TFM Credit Committees, approves all proposals concerning Dexia Crédit Local and has veto power over these proposals.

This delegation is subject to specific rules, depending on the type of counterparty, the counterparty credit rating level and the exposure to credit risk. The Management Credit Committee is the decision-making body of last resort for all credit proposals involving very large amounts or high-risk credits. Each proposal submitted to a Credit Committee includes an independent analysis performed by the Risk Management department presenting the main risk indicators and a qualitative analysis of the transaction. Credit approval procedures have been updated as per the request of the European Commission to ensure that a 10% minimum Risk Adjusted Return on Capital (RAROC) is obtained on all Public and Wholesale Banking transactions.

Dexia Crédit Local also delegates authority for decisions regarding public sector-type counterparties to certain subsidiaries and branches.

Parallel to the approval process, various committees are responsible for monitoring specific risks. These committees are organised by expert centre and/or entity and meet on a quarterly basis:

- Watchlist Committees monitor "sensitive" assets that have been placed under active surveillance: the Dexia Crédit Local Watchlist Committee monitors sensitive Public and Wholesale Banking assets whose exposure lies below a certain threshold, while the

Public and Wholesale Banking Watchlist Committee monitors sensitive assets whose exposure lies above that threshold. The Chief Risk Officer of Dexia Crédit Local is also a member of the Public and Wholesale Banking Watchlist Committee and approves all decisions concerning Dexia Crédit Local counterparties;

- Default Committees qualify and monitor all counterparties in default in accordance with the Basel II regulatory framework, employing the prevailing rules applied by Dexia: the Dexia Crédit Local Default Committee monitors defaults whose exposure lies below a certain threshold, which varies with the type of counterparty, while the Public and Wholesale Banking Default Committee monitors sensitive assets whose exposure lies above that threshold. The Chief Risk Officer of Dexia Crédit Local is a member of the Public and Wholesale Banking Default Committee and approves all decisions concerning Dexia Crédit Local counterparties;
- Reserves Committees established at the Group or Head Entity level approve the amount of reserves allocated and calculate the cost of risk for those entities within the scope of their authority;
- Credit Ratings Committees, organised at the Group level, ensure that the internal credit rating systems are applied correctly and that the credit rating process is appropriate to the risk borne by the counterparties. The Dexia Crédit Local Risk Management department attends all Credit Ratings Committees.

2.2. Market risk

DEFINITION

Dexia Crédit Local's market risk reflects its exposure to changes in market parameters such as interest rates and exchange rates.

Interest rate risk includes both general risk on changes in market interest rates and specific risk (spread risk) on changes in the spread of a particular issuer within a rating category. Equity risk reflects the risk of the potential decline in the value of shares held. Currency risk reflects the potential decline in value due to fluctuations in foreign exchange rates.

ORGANISATION

The policies, directives and procedures documenting and framing each activity are defined by Dexia SA and approved by Dexia Crédit Local. The central teams organised in expert centres or Group-wide teams are also responsible for defining the methodology for establishing the income statement and measuring risk, and for the consolidated measurement, reporting and monitoring of the risks and results of each of the activities for which they are responsible.

The Risk Management department, and most notably the Financial Markets Risk Management unit (FMR), oversees all market risk under the aegis of Dexia Crédit Local's Management Board and a number of specialised risk committees. FMR is an integrated function within the risk management function. With its comprehensive approach to risk management, it is responsible for identifying, analysing, monitoring and reporting all risks and results (including the valuation aspect) related to financial markets activities.

The FMR units of Dexia Crédit Local and its subsidiaries and branches are responsible for day-to-day operations i.e., among other things, implementing the policies and directives defined at the Dexia SA level, as well as, at the local level, measuring and monitoring risk (calculating risk indicators, verifying limits and triggers, etc.), reporting and reconciliations with the Financial Control and Accounting departments and with the local information system. They are also responsible for monitoring and reporting to all local control and regulatory bodies.

COMMITTEES

The Market Risk and Guidelines Committee (MRGC) meets monthly and addresses a broad range of topics: analysis of risk and profit and loss trigger[1] reports and related decisions; definition and revision of approval limits; proposed approvals of all new products; discussion of risk directives, governance and standards; risk concepts; risk measurement methods; and quality of the risk measurement processes. The Chief Market Risk Officer of Dexia Crédit Local attends the MRGC and approves all decisions made on behalf of Dexia Crédit Local.

Ad hoc MRGCs may be organised as required to address specific operational or risk management issues.

In addition to the monthly MRGC, a specific MRGC meets once a quarter to review reports on activity and risk management by type of business within the Treasury and Financial Markets activity.

The Dexia Market Risk Committee (DMRC) meets every two weeks and acts as the supervisory committee for the MRGC.

The Risk Policy Committee and the Risk Management Executive Committee validate all material changes to be made to the risk profile or to the governance of risk.

2.3. Balance sheet management

DEFINITION

Balance Sheet Management (BSM) includes all of the structural risks on the banking book, i.e. interest rate, currency, equity and liquidity risk.

The detailed definitions of structural and specific interest rate risk, currency risk and equity risk are provided in the section on market risk.

Liquidity risk measures the Bank's ability to satisfy all of its expected and unexpected current and future cash needs.

ORGANISATION

Within the Finance function of Dexia Crédit Local Paris, the BSM department is responsible for managing all risks related to the balance sheet structure of Dexia Crédit Local at the local, parent company and consolidated levels, i.e. all interest rate, currency and liquidity risks other than those risks stemming from the Bank's financial markets activities. Within the Risk Management department of Dexia SA, the role of BSM Risk Management is to define the risk framework under which risk management can be conducted by BSM Finance

(1) Loss triggers alert staff to a deterioration of earnings, and are expressed as a percentage of VaR limits, i.e. generally 50%, 75% and 100% for triggers 1, 2 and 3, and discontinuation of activity at 300% of VaR.

(risk factors, limits, investment universe, guidelines, etc.); validate the models used in the effective management of this risk; monitor all exposures and ensure their compliance with Group norms; define the stresses to be applied to the various risk factors; challenge the risk management carried out by the Finance function, and ensure that the framework is compliant with all applicable external regulations throughout the entire Group.

COMMITTEES

Three committees are responsible for monitoring BSM risk.
The Dexia ALM Committee (Group Assets and Liabilities Committee, or Group ALCO) meets monthly. It establishes the overall framework for risk, sets limits, guarantees the consistency of the strategy, establishes the overall level of exposure in line with the risk appetite defined by the Management Board of Dexia SA and validates the transfer pricing mechanisms employed within the Dexia Group. It delegates operational implementation to the Dexia Crédit Local ALCO and the ALCOs of the international entities. Dexia Crédit Local is represented on the Group ALCO by either its CEO or its Chief Risk Officer.

By delegation from the Group ALCO, the Funding and Liquidity Committee (FLC) centralises and coordinates the decision-making process for all liquidity-related issues. The FLC is in charge of monitoring the Group's liquidity position and ensuring that all needs are covered by short-, medium- and long-term resources. It monitors the attainment of the liquidity targets set by the Group Management Board and develops funding, divestiture and structuring strategies that will enable the Group to overcome all regulatory and internal stresses. The FLC, which meets on a bimonthly basis, takes all measures possible to improve the Group's liquidity profile. Acting as knowledge centre for liquidity, Group BSM Finance transmits the information submitted by each entity, incorporates notably the specificities of each Dexia Crédit Local entity and centralises this information in order to permit funding conditions and the use of reserves to be optimised to the greatest extent possible.

The Dexia Crédit Local ALM Committee (Dexia Crédit Local ALCO) meets monthly. The Group ALCO delegates authority to the Dexia Crédit Local ALCO for the monitoring and operational management of balance sheet risks (interest rate, currency, liquidity, etc.) at the consolidated Dexia Crédit Local level. As such, the Dexia Crédit Local ALCO, which is composed of the Chief Executive Officer and/or the Chief Risk Officer, the CFO and the EVP-Financial Markets, is responsible for:

- management of the balance sheet risk of all Dexia Crédit Local Level 1 entities (the Dexia Crédit Local parent company [Dexia Crédit Local Paris], Dexia Crédit Local Dublin, Dexia Municipal Agency, Dexia Kommunalkredit Bank, Dexia Crédit Local Tokyo and the French subsidiaries);
- monitoring the management of the balance sheet risk of all Dexia Crédit Local Level 2 entities (Dexia Crédit Local New York, Dexia Financial Products, Dexia Kommunalbank Deutschland, Dexia banka Slovensko, Dexia Israel Bank, Dexia Crediop and Dexia Sabadell);
- providing coordination between Group ALCO and local ALCOs: implementation of decisions, transmission of information, etc.

Dexia Crédit Local ALCO decisions are implemented at the local level during ALCO meetings for those entities with their own BSM unit, or during Finance Committee meetings for all others. At Dexia Crédit Local Paris, Interest Rates and Liquidity Committees meet twice a month. These committees are composed of the CFO of Dexia Crédit Local or his representative, and representatives from the Risk Management and Financial Markets departments. The committee's main role is to regularly monitor the balance sheet risk of Dexia Crédit Local, for both the parent company and the consolidated group, and to take all appropriate measures to ensure compliance with the risk limits established by the Group ALCO.

2.4. Operational risk

DEFINITION

Dexia defines operational risk as the risk of a financial or non-financial impact resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes risks related to information systems, legal issues and compliance, but excludes strategic risk.

The definition of operational risk developed by Dexia is inspired, in a non-exhaustive manner, by the definition provided by the Basel Committee, which puts the emphasis on losses (negative financial impacts). Dexia's policy also requires the collection of data concerning any events that generated financial gains.

ORGANISATION

The Management Board of the Dexia Group meets weekly and regularly examines changes in the risk profile of the Group's various activities and make all necessary decisions.

The Risk Policy Committee, a strategic committee made up of representatives of the Management Board, approves Group-wide policies. The Risk Policy Committee meets quarterly.

The Operational Risk Guidelines Committee, chaired once a quarter by the Group Chief Risk Officer, transposes the approved policies into recommendations suited to Group's business activities. It reviews all operational risk events and related analyses on a Group-wide level.

The Operational Risk Management Committee, chaired once a month by the Group Operational Risk Manager, develops consistent Group-wide operational risk procedures, including those for business continuity, crisis management, information security and insurance.

Line management has primary responsibility for managing operational risk. For each area of activity, it appoints an operational risk correspondent whose role is to coordinate the collection and self-assessment of risk event data, with the help of the local operational risk management function.

3. Risk monitoring

3.1. Credit risk

DEXIA CRÉDIT LOCAL CREDIT RISK POLICY

The Dexia Crédit Local Credit Risk Management department (CRM) has established a general framework of policies and procedures consistent with the risk appetite of the Bank. This framework guides the credit risk management function in its risk analysis, decision-making and monitoring functions.

CRM manages the credit approval process by granting delegations within the limits set by the Bank's management and by chairing the Credit Committees. As part of its credit risk monitoring duties, CRM controls changes in the credit risk of its portfolios through regular analysis of credit files and reviewing credit ratings. CRM is also responsible for defining and implementing the reserve policy. It approves specific reserves and classifies files as being in default.

RISK MEASUREMENT

To measure its credit risk, Dexia Crédit Local primarily uses the internal rating systems set in place by Dexia in connection with Basel II. Each counterparty is assigned a credit rating by the analysts in charge of credit risk. This rating corresponds to an assessment of the level of the counterparty's risk of default expressed through an internal scale and represents a key component of the Credit Committee's credit approval process. All credit ratings are reviewed at least once a year, which allows all counterparties requiring regular monitoring by the Watchlist Committee to be identified proactively.

In order to manage the Group's general credit risk profile and to limit any concentrations of risk, credit risk limits are set for each counterparty, establishing the maximum acceptable credit risk exposure for a given counterparty. The total exposure held by Dexia Crédit Local and its subsidiaries and by any other Dexia Group entity for any given counterparty must remain below the limit set for that counterparty. Limits may also be imposed by business sector and by product. These limits are monitored proactively in accordance with changes in the perception of risk. To take account of events as they occur, specific limits may be frozen at any time by the Risk Management department.

In connection with the management of its derivatives, Dexia Crédit Local regularly monitors the legal provisions relating to netting agreements and exchanges of collateral.

FUNDAMENTALS OF DEXIA CRÉDIT LOCAL'S CREDIT RISK IN 2010

From a macroeconomic standpoint, economic conditions improved gradually in most European countries in 2010. The year was, however, also marked by a crisis of confidence in the ability of some European states to meet their financial obligations, putting pressure on financial markets and making it difficult for these countries to obtain funding. The crisis prompted all of the EU countries to adopt fiscal austerity measures aimed at reducing public debt.

Dexia Crédit Local observed a clear slowing of the decline in the average ratings of the portfolios, reflecting the improvement in economic conditions. This trend was particularly visible in a number of sectors weakened by the financial crisis and against which general [collective] reserves had been set aside in 2008 and 2009 – in the port and motorway sectors in particular – which prompted several reversals of collective reserves.

In response to the sovereign debt crisis that affected certain European countries – primarily Greece, Ireland, Portugal and Spain – Dexia Crédit Local not only blocked the approval of credit to those sovereigns concerned but included these exposures in its securities divestiture programme as well. Dexia Crédit Local remains alert to all developments in this area, including the impact of the interventions of the European Financial Stability Facility and the IMF to provide support to States experiencing difficulties.

In this context, it is important not to extrapolate the default risk of a sovereign to that of local governments. A number of factors make it possible to relativise the risk of a systematic contagion:

- the regulatory framework governing the administration of local governments is binding. In most countries in which Dexia Crédit Local is active, local governments are obliged to present a balanced budget. Moreover, they are allowed to borrow only to finance their investments and not their operating expenses, and debt levels are generally subject to limits in terms of both absolute value and as a percentage of revenue spent on debt service. The contraction of debt affects capital expenditures only, not operating expenses, which are funded in part by contributions and grants. The level of debt is generally fairly low. Therefore, even if local governments have increased their debt during the recent period, it remains at reasonable levels (8% of the deficit and 9% of the public debt of the European Union);

- several mechanisms are in place to protect the holders of local authority debt: in France, debt service is a compulsory and therefore priority expenditure; in Italy, public debt holders enjoy a prior claim on income tax; etc.

Depending on the country, local governments were generally affected by the deterioration of the global economy in a fairly heterogeneous manner. The measures taken by governments play a significant role. Some local governments receive a significant share of their revenues from their central government. The increase in transfers, either on an ad hoc basis as is the case in Poland or through the establishment of stimulus plans as in the United States, helped offset falling tax revenues.

In France, the strong growth in income from transfer tax on real estate transactions in 2010 offset the slowdown in other sources of operating income. Fiscal 2010 was a year of transition for local direct taxation, marked by the elimination of the *taxe professionnelle* (local business tax). State transfers, in turn, changed little and are expected to remain frozen for three years. Capital budgets are decreasing somewhat, yet remain high. In this context of tax reform and restrictions on state grants, the French administrative departments are faced with a steady increase in social spending, particularly in respect of Revenue de Solidarité Active (RSA) guaranteed minimum income allocations and allowances for senior citizens: whilst this could impact the internal credit ratings of the departments, they would still remain strong.

In Spain, debt levels increased significantly and gross savings levels deteriorated in some regions, while municipalities posted higher revenues following the review of their tax map.

In Italy, debt levels are expected to stabilise but the pressures on healthcare spending remain strong.

In Central and Eastern Europe, the impact of the crisis is quite pronounced in Bulgaria, Czech Republic and Hungary due to the drop in tax revenues, but this is offset by increased transfers from the State. No significant effects have been observed yet in Romania. In Poland, the crisis has not had a very visible impact on local governments' current income, but savings have gone down and capital spending remains strong.

In the United States, while the individual states are finding it difficult to close their budget gaps, most of them are legally obligated to balance their budgets. Municipal governments have therefore had to make significant cuts in spending. As Japan has been spared by the financial crisis to some extent, local governments do not appear to have been impacted to any great degree.

In line with the Bank's commitments to the European Commission, Dexia Crédit Local continued to sell off its bond portfolio in 2010, automatically lowering the Group's credit risk. While the economic crisis continued to weigh heavily on the portfolio's average credit rating, performances and expected losses showed no significant signs of deterioration. The deterioration was more pronounced in the residential mortgage-backed securities (RMBS) sector in the United States and Europe (primarily in Ireland and Spain). In spite of everything, 92% of the bond portfolio is still rated investment grade.

All in all, the resilience of Dexia Crédit Local's asset base to the economic crisis confirms the low risk profile of the Group's businesses.

a. Financial products portfolio[1]

In 2010, the Financial products portfolio was reduced by USD 1.6 billion to USD 13.8 billion, reflecting USD 0.4 billion in asset sales (of which USD 0.2 billion in the fourth quarter of 2010) and the natural amortisation of the portfolio. The average maturity of the portfolio at 31 December 2010 was 9.2 years.

In a context characterised by volatile economic conditions and a high level of housing stock that will continue to weigh heavily on the US real estate market at least throughout 2011, Dexia has adjusted the assumptions it applies to its portfolio of US RMBS to factor in the impact of recent, significant changes that have taken place in the market:

- in 2010, a high percentage of impaired loans, especially subprime loans, was restructured by the "servicers", which helped to lower the default rate of these assets. Dexia believes that it is nevertheless possible that these defaults may only have been postponed, since a large proportion of these borrowers could fall back into default despite the restructuring of their debt;
- in the light especially of the low visibility on property prices and the potential impact associated with the moratorium on foreclosures imposed in several states, Dexia adopted a more conservative assumption of severity by applying a constant curve up to the maturity of these transactions.

Dexia has made its projections concerning its US RMBS portfolio employing its most reasonable assessment of the situation in the light of the current uncertainty surrounding the US housing market. Dexia also regularly compares its forecasts with those of the US rating agencies. Dexia's estimates are fairly close to those of Standard & Poor's in terms of loss projections, while those from Moody's are more conservative. The modelling of these RMBS-type assets is sensitive to parameters such as the timing of defaults, assumptions about loan modifications, property prices and prepayments.

Dexia's base case scenario yields a projected economic loss of USD 1,796 million. Still, given the uncertainties associated with the timing of the economic recovery and the turnaround of the mortgage market in the United States, this estimate is sensitive to any changes in the market and the parameters of the model.

For example, a more limited improvement in default rates coupled with increased severity (+5%) would generate a total economic loss of USD 2.3 billion. Moreover, if Dexia were to maintain default rates and severities at the current relatively high level and prepayments at a low level all the way to maturity this would generate a total economic loss of USD 2.8 billion. Finally, if the US economy was to improve about 18 months earlier than in the base case scenario, the total economic loss would amount to USD 1.3 billion.

It should also be noted that Dexia has established an active strategy aimed at maximising recoveries on the US RMBS portfolio in 2011. The Group is using a team of New York-based specialists, and has initiated legal proceedings against various players in the US RMBS market. At this stage however, the Group's financial statements do not reflect the potential positive outcome of these proceedings.

Finally, it is important to note that Dexia's regulatory capital adequacy ratio is immunised against all provisions and losses on the Financial products portfolio.

b. Exposure to credit risk

Exposure to credit risk includes:

- the net carrying amount of all balance sheet assets other than derivatives (i.e. the gross carrying amount less specific reserves);
- the market value of derivatives;
- the total value of off-balance sheet commitments: the total commitment is equal to either the undrawn portion of the Group's liquidity facilities or the maximum amount that Dexia is required to honour on any guarantees given to third parties. When a credit exposure is guaranteed by a third party with a lower risk weighting, the principle of substitution is applied.

Exposure to credit risk includes all Dexia Crédit Local subsidiaries and branches.

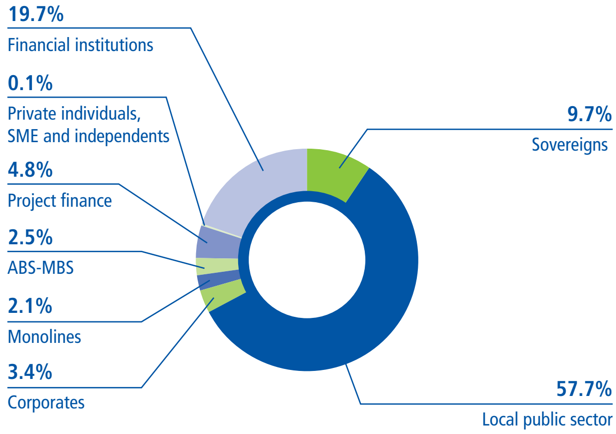
The Group's total exposure to credit risk amounted to EUR 353,095 million as at 31 December 2010.

(1) For details, see note 7.2.a of the notes to the consolidated financial statements.

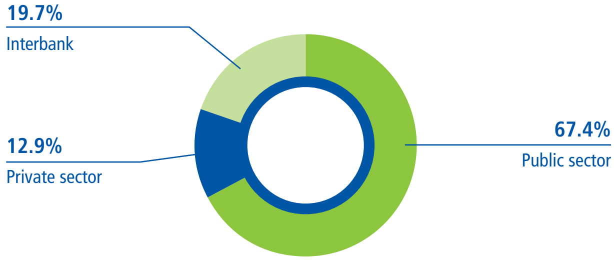
c. Dexia Crédit Local consolidated data as at 31 December 2010 (excluding Financial products and Global Funding)

MAXIMUM CREDIT RISK EXPOSURE BY TYPE OF COUNTERPARTY - SPECIFIC

The composition of Dexia Crédit Local's portfolio is very stable in terms of counterparties. Over half of the Group's exposure is to local public sector entities.

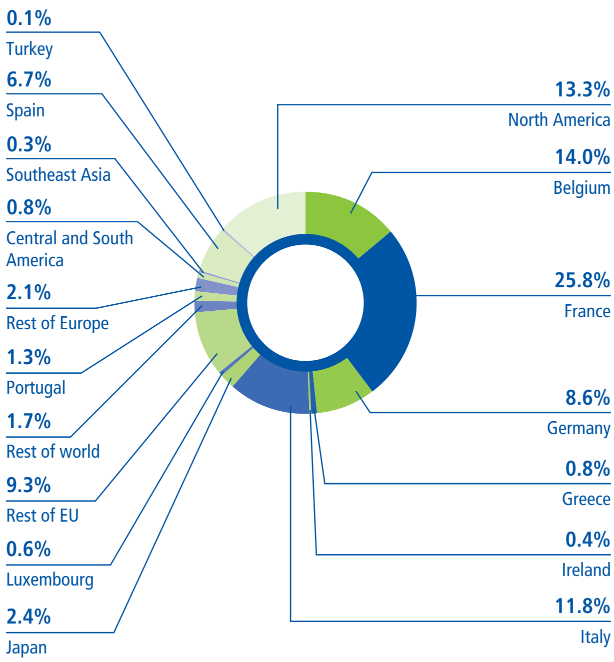


MAXIMUM CREDIT RISK EXPOSURE BY TYPE OF COUNTERPARTY - GENERAL



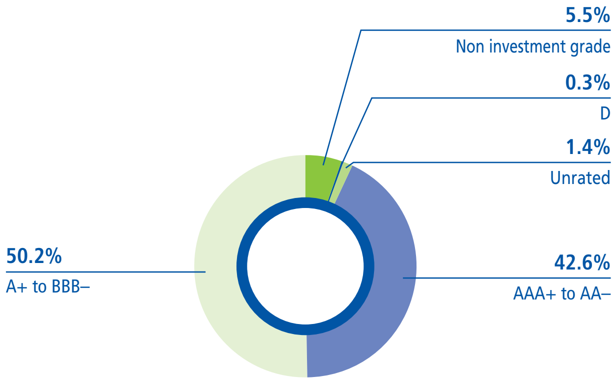
MAXIMUM CREDIT RISK EXPOSURE BY REGION

As at 31 December 2010, the Group's exposure remained largely concentrated in the European Union (EUR 353 billion), primarily in France (25.8%) and Belgium (14.0%).



MAXIMUM CREDIT RISK EXPOSURE BY CREDIT RATING

As at 31 December 2010, 42.6% of Dexia Crédit Local's exposure was rated AAA or AA and 50.2% was rated A or BBB. Only 5.5% of the Group's exposure was rated non-investment grade (NIG).



ANALYSIS OF SOVEREIGN BOND PORTFOLIO FOR CERTAIN EUROPEAN COUNTRIES (AS AT 31 DECEMBER 2010)

(EUR millions)	Total	Banking	Trading
Greece	2,370	2,370	0
Ireland	0	0	0
Italy	7,591	7,591	0
Portugal	1,691	1,691	0
Spain	510	510	0
TOTAL	**12,161**	**12,161**	0

Impairment for counterparty risk

Loans and advances (EUR millions)	31/12/2009	31/12/2010	Change (value)	Change (%)
Non-performing loans under collection	589	828	239	41%
Reserves allocated	134	203	69	52%

Securities and derivatives (EUR millions)	31/12/2009	31/12/2010	Change (value)	Change (%)
Reserves on banks	323	315	-8	-3%
Reserves on mid-corporates	99	99	0	0%

3.2. Market risk

DEXIA CRÉDIT LOCAL MARKET RISK POLICY

In order to manage market risk on a consolidated basis, Dexia has developed a framework based on the following:

- a comprehensive approach to the measurement of risk, which constitutes an important part of the Dexia Group's process for monitoring and controlling its risk profile;
- a rigorous system of limits and procedures that govern risk-taking. The market risk limit system must be consistent with the entire risk measurement and management process and with the mechanism for ensuring that the Group maintains an adequate capital position. These limits are consolidated and defined for the broadest scope possible;
- an efficient organisation of the risk management function, which is responsible for identifying, measuring, monitoring, controlling and reporting all risks: the development of Dexia's overall risk management framework must reflect the types of challenges that the Bank is confronted with. This approach ensures that market risks are managed in a manner that is consistent with Dexia's objectives and strategy and with the Group's general risk appetite framework.

RISK MANAGEMENT

a. Risk measurement

Like the Dexia Group, Dexia Crédit Local has adopted the Value at Risk (VaR) risk measurement technique as one of its main risk metrics. VaR measures the potential loss expected for a 99% confidence interval over a 10-day holding period. Dexia uses several VaR techniques to obtain a precise measurement of the inherent market risk of its various portfolios and activities.

- parametric VaR is used to measure general interest rate risk;
- historical VaR is used to measure specific interest rate risk (spread);
- specific and historical VaR techniques are used to measure nonlinear and specific risks, in order to obtain a more accurate assessment of exposure to market volatility.

Dexia Crédit Local's exposure to market risk, measured in terms of VaR, comes mainly from general and specific (spread) interest rate risk, reflecting the current volatility observed in credit markets, while its exposure to market risk resulting from the trading of equities and foreign currencies and from other risk factors is much lower.

Dexia Crédit Local uses the in-house VaR model to calculate its regulatory capital requirements on the general interest rate and currency risk generated by its trading activities.

The VaR techniques employed are continuously optimised. The "Market Risk Engine" project, which was launched in 2010, seeks to provide an historical VaR that factors in every risk factor (with a full reassessment of all nonlinear risk factors). This comprehensive historical VaR technique, which has emerged as the standard in many banks, will provide a consistent and more accurate metric. In addition to VaR, the new tool will facilitate stress testing and the analysis of extreme values. The first phase of the project has already been implemented successfully and has helped improve existing historical VaRs, add sensitivity-based historical VaRs and advance with the implementation of the stressed VaR as requested by the regulator.

In 2010, backtesting did not generate any exceptions to general interest rate or currency risk (in-house model) or credit spread-related risk, which attests to the effectiveness of the techniques employed.

In addition to VaR metrics and loss triggers, Dexia Crédit Local uses a wide range of other metrics to assess the risks associated with its different businesses and portfolios (limits for nominal volumes, maturities and authorised markets and products; limits for sensitivity to the various risk factors [Greeks]).

Stress testing is increasingly important to any stringent risk management system, as it explores a range of low probability events outside the probabilistic scope of VaR measurement techniques. VaR measures estimated market risk under traditional, everyday conditions, while stress testing quantifies it under abnormal circumstances. In this context, the various assumption scenarios are reviewed and updated regularly. The consolidated results of stress testing and the corresponding analysis are presented once a quarter to the MRGC and the DMRC.

Bonds in the banking book are not subject to VaR limits, due to their different investment horizon. Under the Dexia transformation plan, nearly all of that portfolio has been placed in run-off.

b. Exposure to market risk

Value at Risk (VaR)

Details regarding the VaR used by the Treasury and Financial Markets activity (excluding the bond portfolio) are provided in the table below. The average VaR came to EUR 18.6 million in 2010.

VaR limits were revised sharply downward in accordance with the principle of reduction of risk appetite laid out in the Dexia transformation plan. The TFM limit was reduced from EUR 178 million in Q3 2008 to EUR 42 million as from Q2 2010.

Value at risk of the TFM activity

VaR (10 days, 99%) (EUR millions)		IR(1) & FX(2) (Trading and Banking)(3)	EQT(4) Trading	Spread Trading	Other risks(5)
By activity	Average	4.1	0	14.5	0
	Maximum	7.1	0	24.7	0
Global	Average	18.6			
	Maximum	30.6			
	End of period	11.9			
	Limit	42.2			

(EUR millions)	VaR All Risks – Core(6)	VaR All Risks – non Core
Average	3.5	15.8
Maximum	6.1	25.9
End of period	3.1	9.2

(1) IR: interest rate.
(2) FX: foreign currency.
(3) IR & FX: excluding balance sheet management (BSM).
(4) EQT: equities.
(5) Other risks: inflation, CO_2, commodity.
(6) "Core" denotes the portfolio of assets that Dexia considers its core business, while the "Legacy" portfolio denotes those assets Dexia is going to divest itself of under the terms of its agreements with the European Commission.

Bond portfolios

Dexia Crédit Local manages bond portfolios, most of which have been placed in run-off, with an aggregate value (excluding the BSM and FP portfolios) of EUR 73.6 billion as at 31 December 2010, down from EUR 89.2 billion the previous year. As the interest rate risk on these bond portfolios is hedged, they are not very sensitive to changes in interest rates. A significant portion of the bond portfolios is classified in Loans and Receivables. The AFS reserve of these securities is insensitive to changes in market spreads. The sensitivity of the fair market value (and the AFS reserve) of the other bond portfolios, classified as AFS, to a one basis point increase in the spread came to negative EUR 25.52 million (negative EUR 24.89 million per basis point the previous year).

3.3. Balance sheet management

DEXIA CRÉDIT LOCAL ALM RISK POLICY

Dexia Crédit Local takes a conservative approach to asset-liability management, whose primary goal is to minimise earnings volatility and preserve value. The Bank seeks to stabilise its overall income, not to create additional income through the voluntary assumption of interest rate risk.

Interest rate sensitivity is considered to be the main tool for measuring risk (total revaluation expressed in terms of sensitivity). A parametric VaR based on interest rate sensitivity is calculated at the Dexia Group level for information purposes. The key risk metrics used by the ALM Committees (ALCO) to manage this risk remain, however, global and partial sensitivity by time interval.

RISK MEASUREMENT

Interest rate risk

The role of the Balance Sheet Management (BSM) unit within the risk management function is to reduce the volatility of Dexia Crédit Local's income statement, in order to "immunise" the operating profits generated by the business lines and protect the Group's overall creation of value from changes in interest rates. Dexia's approach to interest rate risk management is to reduce its exposure by continuously restoring the equilibrium between the interest rates on its assets and the interest rates on its liabilities.

All Group entities use the same methods to measure balance sheet risk. The primary metric used to set limits and monitor risk is currently the sensitivity of the net present value of BSM positions to changes in interest rates.

Dexia Crédit Local's structural interest rate risk is generated primarily by long-term European interest rates and results from the structural imbalance between Dexia Crédit Local's assets and its liabilities.

Risk sensitivity measurements reflect the exposure of the balance sheet to first- and second-order sensitivity. VaR calculations provide complementary, indicative measurements.

Interest rate risk is monitored on a fortnightly basis in the main entities of the Dexia Crédit Local Group and is managed by local committees. Risk indicators are calculated on a "dying balance sheet" and until its extinction. The results of this monitoring are presented each month to Dexia Crédit Local's Asset and Liabilities Committee (ALCO), which determines the interest-rate risk policies and limits to be observed by its subsidiaries, as the limits to be observed by Dexia Crédit Local are established by the Group ALCO.

Credit spread risk

Credit spread risk is defined as the specific interest rate risk on the issuer. It is generated by changes in the spread of a specific issuer within a rating class, and is measured on the basis of the sensitivity expressed in basis points.

Currency risk (structural)

Dexia Crédit Local does not engage in any forex activities. The basic principle is that all assets denominated in foreign currencies (other than equity investments) are systematically funded in the currency of origin. Thus, any foreign currency positions are generated solely by the results (positive or negative) of operations denominated in foreign currencies.

Foreign currency positions are managed within the framework of ALM activities. They can be divided into three compartments, each of which has its own specific monitoring and oversight:

- from an accounting standpoint, the non-structural currency position includes foreign currency-denominated assets and liabilities other than equity investments, realised gains and losses and risk provisions;

- future results denominated in foreign currencies: current transactions (ALM margins, securities, equity investments, etc.) contain future results denominated in foreign currencies that have not yet been recognised but the amount and maturity of which are relatively certain. Group ALCO is authorised to hedge these items in advance using forward purchases/sales of foreign currencies against the accounting currency of record;

- the structural foreign currency position represents the currency risk of equity investments acquired in foreign currencies. The revaluation of this position at each balance sheet date affects only the balance sheet and has no impact on earnings. It is recognised in profit or loss only in relation to dividend payments and the setting aside of reserves on, or the sale of, the corresponding asset.

BALANCE SHEET EXPOSURE

Exposure of the balance sheet to interest rate risk (sensitivity)

Interest rate risk sensitivity measures the change in the net economic value of the balance sheet caused by a 1% increase along the entire interest rate curve. Dexia Crédit Local had long-term ALM sensitivity of negative EUR 7.5 million as at 31 December 2010 (negative EUR 104 million the previous year). The limit of sensitivity to interest rates amounted to EUR 94 million for a change of 1% as at 31 December 2010, versus negative EUR 400 million for a change of 1% the previous year.

This trend is fully consistent with the new BSM strategy, which seeks to minimise the volatility of the income statement while preserving overall creation of value.

The Financial products portfolio amounted to USD 13.8 billion (EUR 10.4 billion) as at 31 December 2010. The interest rate risk on this portfolio amounted to negative EUR 8.5 million for a change of 1% (compared to a sensitivity limit of negative EUR 42 million for a change of 1%).

Exposure of the balance sheet to credit spread risk

BSM managed bond portfolios with EUR 12.3 billion in exposure as at 31 December 2010. A portion of the bond portfolios is classified in Loans and Other Receivables. The AFS reserve of these securities is insensitive to changes in market spreads. As at 31 December 2010, the sensitivity of the fair market value (and the AFS reserve) of the other bond portfolios managed by BSM and classified as AFS to a one basis point increase in the spread came to negative EUR 4.29 million (negative EUR 4.81 million per basis point the previous year). As at 31 December 2010, the sensitivity of the Financial products portfolio, classified as AFS, to a one basis point increase in the spread came to negative EUR 1.31 million (negative EUR 1.12 million per basis point the previous year).

3.4. Liquidity risk

DEXIA CRÉDIT LOCAL LIQUIDITY RISK POLICY

In 2010, Dexia completely revamped its internal liquidity risk management process, including its emergency funding plan. This change is intended to establish a more effective and coordinated management of liquidity. The cornerstone of this new framework is the Funding and Liquidity Committee (FLC), which includes all stakeholders at the Group level and coordinates their actions. Information and decisions affecting Dexia Crédit Local or any of its subsidiaries are also discussed during the Dexia Crédit Local ALM Committee (ALCO), which is responsible for monitoring balance sheet risk within the consolidated scope of Dexia Crédit Local. Finally, Dexia Crédit Local's Management Board and Audit Committee regularly monitor the Group's liquidity position.

Dexia strives to maintain a liquidity reserve that is proportional to its future funding needs under different scenarios, including both normal and stress conditions. This liquidity reserve consists of securities that qualify for the funding programmes of those central banks to which Dexia has access. Dexia's expected funding needs are assessed in a conservative, dynamic and exhaustive manner, taking account of all existing and planned transactions (both on- and off-balance sheet). Short-term liquidity risk is monitored on a daily basis, whilst long-term liquidity risk is monitored on a quarterly basis. Moreover, the liquidity issue is central to the definition of Dexia's multi-year financial plan.

Dexia's internal liquidity risk management process allows daily monitoring of liquidity and provides a prospective view of long-term liquidity: this forward-looking vision factors in assumptions as they occur as well as the various stress factors that can affect growth. For example, drawings on off-balance sheet commitments or issues related to the renewal of long-term funding. Changes to these scenarios have been presented regularly to the Liquidity Committee and the Audit Committee of Dexia Crédit Local.

The updated emergency funding plan alters the governance structure to make it more responsive at times when liquidity stress requires prompt action.

RISK MEASUREMENT

The Dexia Group defines a number of liquidity indicators to measure and monitor how well Dexia would hold up in the face of a liquidity risk. These indicators include but are not limited to the usual "liquidity ratios" comparing the liquidity reserve to the liquidity gap. They include limits on the absolute size of the liquidity gaps and limits on the proportion of short-term funding used. All of these indicators are evaluated under different scenarios, in all of the major currencies, at all appropriate levels of consolidation and over various horizons ranging from one day to one month for short-term indicators, and from one day to 50 years for long-term indicators. Dexia Crédit Local's liquidity risk is also limited by the regulatory ratios established by its regulatory authority, and is monitored regularly by the Management Board and the Audit Committee of Dexia Crédit Local.

EXPOSURE TO LIQUIDITY RISK

In 2010, Dexia Crédit Local raised EUR 42.1 billion in medium- and long-term funding.

The funds raised included EUR 23.2 billion of debt guaranteed by the States and EUR 12.9 billion in covered bonds, EUR 3.5 billion in secured long-term financing other than covered bonds and EUR 2.5 billion in senior unsecured financing. In addition to these external funding operations, Dexia Crédit Local also raised EUR 11 billion in new intra-group financing from other Dexia Group entities, over periods ranging from one to three years.

Dexia Crédit Local made significant progress during the year in reducing its one-month liquidity need, which declined 13% year on year to EUR 30.4 billion as at 31 December 2010.

This good performance was made possible by:

- the sustained pace of the balance sheet reduction programme; EUR 12 billion in bonds and EUR 5 billion in long-term loans previously held by the Public and Wholesale Banking business were sold in 2010;
- the successful execution of the long-term funding programme;
- the restriction of the amount of public sector loans, as defined by the Group's ability to obtain long-term funding.

By lowering its risk profile, Dexia Crédit Local was able to substantially decrease its reliance on borrowing from central banks: as at 31 December 2010, Dexia Crédit Local and its subsidiaries had only EUR 18.4 billion in central bank financing, EUR 10 billion less than the previous year, and only from the European Central Bank. Dexia Crédit Local's other short-term external funding also went down, by EUR 16 billion in one year to EUR 64 billion as at 31 December 2010.

As at 31 December 2010, the total amount of eligible assets from central banks amounted to EUR 59 billion, of which EUR 19 billion is available to cover one-month funding needs.

In 2010, Dexia also stopped making use of the Belgian, French and Luxembourg State guarantees. On 30 June 2010, in the light of its improved liquidity position and in accordance with its commitments to the European Commission, the Group stopped issuing guaranteed debt four months before the official 30 October 2010 deadline. As at 31 December 2010, there was a total of EUR 41.3 billion in outstanding guaranteed transactions. These guaranteed outstandings shall be fully amortised in 2014. In 2010, the cost of the State guarantee on short- and long-term securities issued under the guarantee amounted to EUR 340 million. To further improve its liquidity position in 2011, Dexia Crédit Local has established an action plan based on the continuation of balance sheet reduction initiatives, the diversification of long-term funding sources and the optimisation of the allocation of assets between the various entities within the Group's scope of consolidation.

3.5. Operational risk

DEXIA CRÉDIT LOCAL OPERATIONAL RISK POLICY

Dexia's Operational Risk Management policy is to identify and regularly assess the various risks and controls that exist to verify compliance with the level of tolerance that has been defined for each type of activity. If this is not the case, the system of governance that has been set in place should lead to the rapid development of corrective actions or improvements that will return the situation to an acceptable level.

A recent decision to combine the Operational Risk Management and permanent control functions will improve the monitoring of risk indicators.

RISK MEASUREMENT AND MANAGEMENT

The Operational Risk Management system is based on the following key factors:

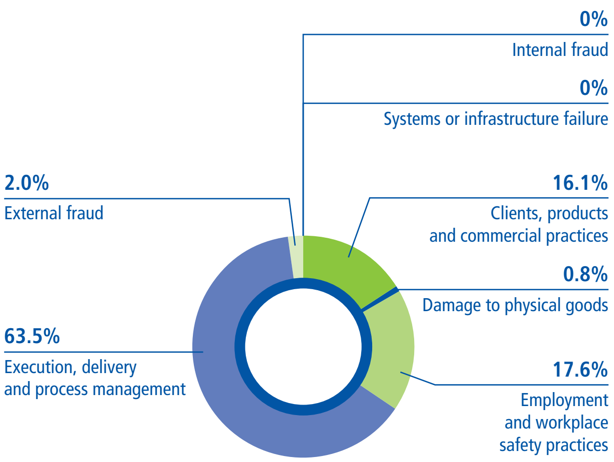
a. Operational risk database

The systematic capture and follow-up of operational risk events is one of the most important requirements stated by the Basel Committee, whatever approach has been chosen for the capital calculation (Standardised or Advanced Measurement Approach): "time series of losses may provide useful information for assessing exposure to operational risk and developing a strategy to control/mitigate this risk".

Consequently, the collection of operational risk event data allows Dexia Crédit Local to comply with regulatory requirements and to obtain valuable information that it can use to improve the quality of its internal control system. Reporting guidelines have been formulated and distributed at the Group level, to ensure that crucial information is passed on in due time (a mandatory reporting threshold has been set at EUR 2,500). The Management Board receives a report of all major operational risk events, including the action plans to reduce the risks, as defined by the line management.

Analysis of the distribution of total losses among the standard categories of events over the past three years:

ANALYSIS OF LOSSES BY TYPE OF EVENT - 31/12/2010



The largest share of losses is attributable to events stemming from execution, delivery and process management, which also represent the majority of events and which occur in all of the business lines and support functions. These events and the associated action plans are reviewed on a quarterly basis with all of the key stakeholders (the Operations and Information Systems units in particular).
The other categories remain limited in number and in the value of losses involved. The main events are of course subject to corrective action approved by the governing bodies.

b. Self-assessment of risk and related controls

In addition to building a time series of losses, it is also necessary to identify Dexia Crédit Local's exposure to the major types of operational risk through a risk-mapping of all its significant activities. This is achieved through the performance of bottom-up Risk and Control Self-Assessments (RCSA) in all Group entities. The RCSAs may result in the definition of initiatives to reduce these risks. They provide an overall view of most areas of risk in the different entities and activities. These self-assessments are repeated every year.

c. Management of information systems security and business continuity

The information systems security policy and all related guidelines, standards and practices are designed to ensure the security of Dexia Crédit Local's information assets[1]. The security programmes and well-defined responsibilities in place enable all of the business lines to operate in a secure environment.
As required by the Group's policy on business continuity, the business lines must perform impact studies for all critical activities. They must define and establish recovery plans and ensure that the business continuity plans of the different functions are tested and updated at least once a year. Based on the information it receives in regular reports, the Management Board validates all recovery strategies, residual risks and action plans in an effort to achieve continuous improvement. In 2010, Dexia Crédit Local performed an analysis of the impact on the business lines following the implementation of the transformation plan, which resulted in the updating of the business continuity plans. Five disaster recovery tests were performed in 2010 as part of a comprehensive multi-year plan. Toward that same end, all of the business continuity plans in place in every Dexia Crédit Local subsidiary were assessed in 2010.

d. Management of insurance policies

Dexia Crédit Local also reduces the operational risks to which it is exposed by taking out Group insurance policies covering professional liability, fraud, theft and business interruption costs. Developing a Group-wide insurance strategy enables Dexia to establish insurance-related recommendations covering the various risks to which the Group is exposed, and to implement these recommendations within the various entities. It also allows for centralised oversight of the content of the policies and any changes thereto that may be discussed with the various brokers and insurance companies. In this context, a mapping of all of Dexia Crédit Local's existing policies was performed in 2010, in order to improve the effective coverage.

e. Definition and monitoring of action plans

Line management defines the corrective measures that must be taken in response to any major risk events or significant risks identified. The Operational risk management function provides regular monitoring of and quarterly reports for all of the activities. This process promotes the continuous improvement of the internal control system and reduction of risk in an appropriate fashion over time.

f. Increased coordination with other functions involved in the internal control system

A new software application was developed in 2009 to cover most of the components of the Operational Risk Management system and to make certain key features available to other central functions (internal audit, compliance, permanent control and quality control). The installation of this software in 2010 enabled all of these functions to use a common language and common reference systems, and consolidated information to be produced for line management, in particular in respect of any action plans and recommendations to be followed over time.

(1) Information or data representing a value for the Company and which, as such, must be adequately protected.

g. Calculation of regulatory capital requirements

Dexia has elected to apply the Basel II standardised approach for calculating its regulatory capital in connection with its Operational Risk Management.

The standardised approach consists primarily of applying a percentage (called the "beta factor", ranging from 12% to 18%) to an appropriate indicator, calculated for each of the eight business lines defined by the Basel Committee: corporate finance, commercial banking, retail banking, trading and sales, asset management, agency services, retail brokerage and payments and settlement.

The indicator in question consists essentially of the operating profit of the underlying businesses, which includes net fee and commission income and net interest income. Income from insurance activities is not taken into account, as it is not regulated by the Basel II framework.

The amount of regulatory capital required for each business line is used to calculate the total operational risk capital requirement. An average over the last three years is used. The calculation is updated at the end of every year.

Capital requirements for the most recent calculation periods:

Capital requirements

(EUR millions)	2009	2010
	222.6	179.3

The decrease in regulatory operational risk capital requirements reflects the decrease in the net banking income of Dexia Crédit Local.

4. Legal risk

Dexia Crédit Local's activities do not entail any risks other than those traditionally associated with the distribution of Financial products to customers. During 2010, no significant change was observed in the number of disputes with customers, which remained few. Two structured loan customers subpoenaed Dexia Crédit Local in early 2011.

The most significant disputes concerning Dexia Crédit Local's subsidiaries are described below.

- Financial Security Assurance Holdings Ltd. (FSA Holdings) and its subsidiary, Financial Security Assurance Inc. (now named Assured Guaranty Municipal Corp. and hereafter referred to as "AGM"), former subsidiaries of the Dexia Group, and many other banks, insurance companies and brokerage firms are being investigated in the United States by the Antitrust Division of the US Department of Justice, the US tax authorities and the US Securities and Exchange Commission (SEC) on the grounds that they violated certain laws and regulations in connection with bidding on and entering into municipal derivatives transactions, including guaranteed investment contracts (GICs)[1], with the issuers of municipal bonds. Several US states have initiated parallel, similar investigations.

  In addition to the governmental investigations described above, a large number of banks, insurance companies and brokerages, including in some cases FSA Holdings, Dexia and/or AGM, have been named as defendants in various civil actions relating to municipal GICs and municipal derivatives transactions. These civil lawsuits allege violations of antitrust and other laws and regulations. Substantially all these civil proceedings have been consolidated for pre-trial purposes in a single matter before the US District Court for the Southern District of New York.

  Under the terms of the sale of FSA Holdings and AGM to Assured Guaranty Ltd, Dexia retained the Financial products business and agreed to indemnify AGM and Assured Guaranty Ltd for all losses related to this activity that they may incur as a result of the investigations and lawsuits mentioned above.

  Dexia is not able at present to reasonably predict the duration and the outcome of the investigations and legal proceedings in progress, or their potential financial repercussions.

  On 27 July 2010, the Department of Justice (DOJ) indicted former FSA employee Steven Goldberg, together with two former colleagues of Goldberg at his previous employer in the bid rigging matter. The DOJ did not indict FSA or any entity within the Dexia FP Group as part of the Goldberg indictment.

- Dexia Crediop, like other banks in Italy, is involved in certain judicial proceedings with respect to hedging transactions concluded in the framework of debt refinancing for local governments.

  Under Italian law, debt may be restructured only if it leads to a reduction in the cost borne by the community. The legal question raised is whether or not the cost to be taken into consideration includes the cost of hedging transactions.

  In November 2010, the administrative tribunal of the Region of Tuscany rendered a decision in a dispute between Dexia Crediop and the Province of Pisa according to which the hedging transaction must be taken into account when calculating the costs of the restructuring transaction. Dexia Crediop lodged an appeal against this decision before the State Council in January 2011.

(1) The guaranteed investment contracts (GICs) that are the subject of these investigations and lawsuits were issued by subsidiaries of FSA Holdings in exchange for an investment of funds by U.S. municipal entities. Those subsidiaries also issued GICs to issuers of securitized debt securities. The GICs, which had varying terms and repayment conditions, entitle their holders to receive interest payments at a guaranteed rate (fixed or variable) along with a return of invested principal. Payments of principal and interest on the GICs were guaranteed by AGM, and remain so after the acquisition of that company by Assured Guaranty Ltd.

In addition, Dexia Crediop has filed several claims before civil and administrative courts to preserve its rights under certain hedging agreements.

At this stage of the proceedings, Dexia is not in a position to forecast in a reasonable way the duration or the outcome of the disputes, nor their possible financial consequences.

- In June 2009, a client of Dexia banka Slovensko, who turned out to be unable to meet margin calls in connection with foreign exchange transactions he had entered into, instituted legal proceedings against Dexia banka Slovensko, seeking EUR 162.4 million for breach of law and contractual obligations. Meanwhile, Dexia banka Slovensko filed a counterclaim in the amount of EUR 92.2 million. On 17 May 2010, the Court of Instance [Magistrates' Court] of Bratislava ruled in first instance in favour of the bank's former client and the bank was ordered to pay EUR 138 million in principal. By a separate order, Dexia banka Slovensko was also ordered to pay costs in the amount of EUR 15.3 million. Dexia banka Slovensko appealed both decisions to the Court of Appeals of Bratislava and, in response to these convictions, withdrew its counterclaim from the Magistrates' Court and filed it for a higher amount with the Permanent Chamber of Arbitration of the Slovak Banking Association. On 25 January 2011, the Court of Appeals of Bratislava issued a ruling overturning both of the judgments rendered by the Court of Instance of Bratislava. The case will be resubmitted to the Court of Instance. In its ruling, the Court of Appeals of Bratislava said that the Court of Instance had not established the facts to a satisfactory degree and invalidated its legal argument. The argument of the Court of Appeal will be binding on the Court of First Instance recently notified.
- In May 2002, a complaint was filed in relation to the purchase by Dexia of shares held by the State of Israel claiming non-compliance with company law. In April 2009, the Central District Court rejected the application for a class action formulated by the complainants. In June 2009, the latter appealed to the Supreme Court. The hearing was held on 8 November 2010. The Court has not yet passed judgement.

5. Stress testing

In 2010 Dexia established an action plan for stress testing: the development of a new system of governance that enhances and optimises the existing organisation was a priority for the Group during the year.

Insofar as the Pillar 1 tests (individual stress testing of Basel II internal credit rating models) are concerned, Dexia maintains its previously stated objective of hedging more than 80% of all weighted credit risk.

Insofar as the Pillar 2 tests (general stress tests) are concerned, the stress test performed by Dexia on the basis of an expert scenario involving economic recession led the Group to maintain its Tier 1 core capital ratio at above 8%.

In addition to the traditional stress tests used for market risk and liquidity risk, Dexia now has a battery of stress tests (sensitivity analyses, development of stress scenarios and assessments of potential vulnerabilities) allowing it to assess the potential impact on its financial strength of one or a combination of hypothetical events, and affording it a global vision over the possible distortion of the components of its income statement or of its capital adequacy ratios under stressful conditions. These particular types of simulations were carried out in 2010 for ABS, Assured-FSA and local governments.

Finally, in 2010 Dexia was one of the 91 European institutions subjected by the Committee of European Banking Supervisors (CEBS) to a common stress testing exercise, built on different scenarios involving the deterioration of credit quality[1]. Following the performance of this stress test, it appears that Dexia would not require additional capital to withstand the CEBS's two-year "deteriorated" scenario, including were there to be a new shock brought on by the sovereign debt situation. Dexia's solid capital base would enable the Group to withstand the even higher stress assumptions under the two-year stress test and maintain good capital adequacy ratios. Specifically, in the event of a shock under the "deteriorated" scenario, the Group would have an estimated consolidated core capital (Tier 1) ratio of 11.2% in 2011, compared with 12.3% as at 31 December 2009. Another shock linked to sovereign risk would drive the estimated Tier 1 ratio down an additional 0.29 percentage points to 10.9% at 31 December 2011, compared with the regulatory minimum requirement of 4%.

(1) The exercise was carried out using the scenarios, methodology and assumptions provided by the CEBS, as detailed in the comprehensive report published on the CEBS website: http://www.cbfa.be/eng/press/pdf/20100723_annbijl2_individual_publication_dexia.pdf

6. Changes in regulatory framework

Since 1 January 2008, Dexia Crédit Local has used the Advanced Internal Rating Based Approach (AIRBA) to calculate its capital requirements and capital adequacy ratios. New models have been developed and will gradually be used to calculate regulatory capital as from 31 December 2011.

Pillar 2 was strengthened in 2010 following inspections by the committee of regulators. These provisions, which have been applicable since 31 December 2008, require banks to demonstrate to their regulators that they are sufficiently capitalised in the light of their risk profile. To accomplish this, the banks must notably have internal systems for calculating and managing their risk that are capable of estimating their economic capital needs (Internal Capital Adequacy Assessment Process, or ICAAP). The process is composed of three major sub-processes: the Risk Management department's risk analysis, and the Finance department's financial plan (including capital allocation, analysis of the results of the business lines and the internal supply of capital) and economic capital adequacy analysis.

The Management Board of Dexia Crédit Local has been kept closely informed of all Pillar 2-related developments. In early 2011, the Management Board of Dexia Crédit Local approved Dexia's general risk appetite policy (see section in this chapter on internal capital adequacy).

Pillar 3, which defines a set of qualitative and quantitative risk-related disclosures to be provided to market players, is to be applied at the highest consolidated level of the Dexia Group, and has been an integral part of Dexia Crédit Local's external communication policy since 2008 (see document entitled Risk Report – Pillar 3 of Basel II available at www.dexia.com).

Finally, Dexia is deeply involved with and closely follows all domestic and international consultations, participating notably in the Bank for International Settlements' study of the impact of Basel III reform on the definitions of items such as equity, gearing and liquidity ratios, etc.

In this context, Dexia worked actively on the application of so-called EU Directives "CRD 2" and "CRD 3".

7. Internal capital adequacy

In 2010, Dexia complied with the requirements imposed by Pillar 2 of Basel II by having its internal capital adequacy system validated by both its Management Board and the Board of Directors. In addition to meeting these external requirements, the process lies at the heart of management of the Bank and meets its objective of maintaining a level of capital appropriate to the Group's risk profile. It is based on a comparison between the supply of available capital (available financial resources) and the demand for capital to cover risk (economic capital).

7.1. Risk appetite

Risk appetite reflects the level of risk that an institution is willing to take, given the expectations of its key stakeholders (shareholders, creditors, regulators, rating agencies, customers, etc.), to achieve its strategic and financial objectives.

In 2010, the Group worked on incorporating its approach to risk appetite into a variety of strategic analyses. Dexia Crédit Local now calculates its consolidated risk appetite.

Based on a comprehensive approach, risk appetite serves as a reference point for:

- orienting the Group's strategy and planning;
- assessing performances in terms of growth and value creation;
- facilitating investment decisions on a day-to-day basis.

A formal framework was developed in 2009 – then validated in 2010 for Dexia SA and in early 2011 for Dexia Crédit Local – that incorporates a series of ratios that are crucial to establishing limits for broad financial equilibria metrics. The framework is based on a mix of accounting (gearing), regulatory (Tier 1, RWA) and economic (economic capital, earnings at risk) ratios and incorporates liquidity ratios and funding structure, along with credit concentration limits.

Limits are defined for each of these ratios. The financial plan is analysed in accordance with the agreed framework for risk appetite. The Risk Management and Finance functions are responsible for monitoring these ratios and suggesting to the Management Board any measures needed to ensure compliance with the limits that have been established.

7.2. Economic capital

Economic capital is defined as the potential deviation of the economic value of the Group in relation to the expected value over a given confidence interval and a given period of time. The quantification of economic capital is organised into three stages: identification of risks (definition and mapping updated annually all the way down to the local level), measurement (essentially using statistical methods) and aggregation using an inter-risk diversification matrix. Most risks are capitalised on the basis of a measurement of expected loss; some risks, however, are not capitalised if other management methods (limits, scenarios, governance, etc.) are considered to be better suited to cover them.

Capitalised risks are assessed with a higher degree of severity (99.97% for one year).

In 2010, the reporting of economic capital was centralised entirely, in line with the Group's new organisation. A series of methodological changes were made to the calculation methods to understand the lessons taught by the crisis and to address all internal recommendations as well as those made by the regulators who audited the process at the end of 2009.

Dexia Crédit Local had economic capital of EUR 4,605 million as at 31 December 2010.

Approximately 72% of economic capital is used to cover credit risk.

Market risk, which includes interest rate, currency and equity risk, is the second largest risk factor.

Operational risk (including commercial risk) is the third largest risk factor.

ECONOMIC CAPITAL ADEQUACY

Established in 2009, the Economic Performance Analysis Committee (EPAC) manages the process of ensuring capital adequacy as a function of risk and aims to provide solutions tailored to Dexia's strategy. Every quarter, EPAC reviews Dexia SA and Dexia Crédit Local's ratios, limits and triggers (both regulatory and economic) as defined in the risk appetite policy and the budget framework, as well as any differences from the forecast figures. It assesses the Group's ability to absorb such differences and considers proposed action points. The information in the EPAC report is prepared jointly by the Risk Management and Finance functions, and is reviewed by the Management Board.

Management report

8. Monitoring of solvency

8.1. Weighted risk

Since 1 January 2008, the Dexia Group has been using the Basel II framework to calculate its credit risk-adjusted capital requirements and to publish its capital adequacy ratios.

As at 31 December 2010, Dexia Crédit Local had total weighted risk of EUR 69.6 billion, compared with EUR 74.9 billion the previous year.

This EUR 5.3 billion decrease is attributable primarily to the decrease in weighted credit risk under the Dexia transformation plan and, more specifically, to the steps taken to reduce the Group's balance sheet and risk profile (despite the adverse impact of the euro/US dollar exchange rate).

(EUR millions)	31/12/2009	31/03/2010	30/06/2010	30/09/2010	31/12/2010
Credit risk	70,738	70,392	73,504	70,319	66,363
Market risk	1,368	1,154	1,179	981	978
Operational risk	2,784	2,784	2,784	2,784	2,241
TOTAL WEIGHTED RISK	**74,890**	**74,329**	**77,466**	**74,084**	**69,582**

8.2. Regulatory capital adequacy

Dexia Crédit Local had Tier 1 core capital of EUR 6,547 million as at 31 December 2010 compared with EUR 6,668 million the previous year. This stability was achieved by the strengthening of the Bank's capital induced by the capital increase subscribed by Dexia SA at year-end, as practically offset by the net loss incurred during the period.

In 2010, the core capital (Tier 1) ratio improved by 51 basis points to 9.41%, versus 8.90% in 2009. The total regulatory capital ratio stood at 14.97%, versus 14.85% in 2009. The increase is explained by a reduction in risk-weighted assets combined with the Bank's policy of reducing its balance sheet.

(EUR million, unless otherwise noted)	31/12/2009	30/06/2010	31/12/2010
Core capital (Tier 1)	6,668	6,488	6,547
Total regulatory capital	11,123	10,913	10,418
Weighted risk	74,890	77,466	69,582
Core capital ratio (Tier 1)	8.90%	8.38%	9.41%
Capital adequacy ratio	14.85%	14.09%	14.97%

9. Payment systems security

Dexia Crédit Local uses the following payment systems:

- the Swift network is used for interbank settlements on transactions negotiated by the front office traders in the Financial Markets activities department and any funds transfers requested by other Dexia Crédit Local departments (especially on the international business managed by the Head Office and on settlements of foreign invoices);
- the French Ministerial Budget and Accounting Control Service (SCBCM) network is used for drawings and collections on loans to public sector customers;
- the French Retail Clearing (CORE) and CRISTAL/TARGET2 systems are used for most payments to private sector customers;
- lastly, some payments to private sector customers may be made by cheque.

Dexia Crédit Local does not provide its customers with payment means.

Payment systems security is controlled by a body of procedures and measures:

- lending and financial markets back offices are responsible for payment processes, and front office traders are prevented from accessing these systems;
- rules regarding the approval of payments are clearly defined. Specifically, all payments must be authorised by two different members of the back office concerned. The only exception to this rule is for payments of amounts under EUR 1,000,000 initiated automatically by the Financial Markets information system, which require only one authorisation. Authorisation thresholds in foreign currencies are established and updated regularly;
- there is an effective segregation of duties between users and operators. Existing profiles accurately reflect all defined rules. The process for authorising access to payment systems has been incorporated into the Bank's user authorisation administration procedures. More particularly, back offices and the IT Security Manager are all required to perform controls;
- administration of messages (technical and functional) from the Swift network has been properly secured;
- hardware used for payments (servers, etc.) is situated in protected areas, and accessible only to officially authorised persons. These measures are covered by documented procedures;
- the Bank's business continuity plan includes a body of procedures guaranteeing continuity of payment in the event of a disaster. These measures are tested regularly and the plan is operational;
- with regard to compliance, the Financial Markets back office is responsible for controlling financial flows.

As provided for by its audit programme, the Internal Audit department reviews payment systems security as often as is dictated by its assessment of the risk. Any recommendations issued are monitored regularly to verify that they have been carried out.

Operating results

1. Consolidated financial statements

1.1. Changes in scope

The details of the scope of consolidation and all changes therein are presented in organisation chart and in list form in the notes to the financial statements.

The major changes in the scope of consolidation compared with 2009 are:

NEWLY CONSOLIDATED COMPANIES

- first-time consolidation of Dexia Real Estate Capital Markets Inc. as from 1 April 2010,
- first-time consolidation of Chuo Mitsui Asset Trust and Banking Company Limited (company carrying the assets previously held by Dexia Crédit Local Bank Tokyo branch).

OTHER MOVEMENTS

- Dexia Crédit Local increased its stake in Dexia banka Slovensko from 85.47% to 88.71%.

1.2. Presentation of the consolidated financial statements

The consolidated financial statements of Dexia Crédit Local were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Commission at the balance sheet date. They are presented in accordance with French National Accounting Council (CNC) Recommendation 2009-R.04 dated 2 July 2009.

1.3. Consolidated income statement

The primary components of consolidated net income (loss) are presented below for the years ended 31 December:

(EUR millions)	**2009**	**2010**	**2010/2009**
Net banking income	1,852	189	-89.8%
Operating expenses	(554)	(522)	-5.8%
OPERATING INCOME BEFORE COST OF RISK	**1,298**	**(333)**	**NA**
Cost of risk	(630)	(443)	-29.7%
OPERATING INCOME	**668**	**(776)**	**NA**
Income from investments in associates	(1)	0	NA
Capital gains (losses) on other assets	(102)	31	NA
Impairment on goodwill	(6)	0	NA
PRE-TAX INCOME FROM CONTINUING OPERATIONS	**559**	**(745)**	**NA**
Corporate income tax	(239)	18	NA
NET INCOME	**320**	**(727)**	**NA**
Minority interests	51	(31)	NA
NET INCOME GROUP SHARE	**269**	**(696)**	**NA**
Basic earnings per share (EUR)	*3.09*	*(7.99)*	
Fully diluted earnings (loss) per share (EUR)	*3.09*	*(7.99)*	

Dexia Crédit Local reported sharply lower year-on-year earnings in 2010, due principally to the continuing transformation of the Group's funding structure (lengthening of maturities and renewal of funding at higher rates than in the past) and the continuing impact of the asset sale programme undertaken to reduce the Group’s overall exposure.

NET BANKING INCOME

In 2010, consolidated net banking income fell 89.8% to EUR 189 million, from EUR 1,852 million in 2009.

Net banking income has three components: net interest income, the technical margin of insurance companies and other income.

(EUR millions)	2009	2010	Change (value)	Change (%)
Net interest income	1,298	614	(684)	-52.7%
Technical margin of insurance companies	25	0	(25)	NA
Other income (expenses)	529	(425)	(954)	NA
NBI	**1,852**	**189**	**(1 663)**	**-89.8%**

a. Net interest income

Net interest income includes all interest income and expenses on all on-balance sheet instruments, as well as derivatives, regardless of the type of portfolio in which they have been classified. Net interest income fell EUR 684 million (52.7%) during the year, from EUR 1,298 million to EUR 614 million. Net interest income was particularly affected in 2010 by the weight of the remuneration paid on the State guarantee provided to Dexia Crédit Local and its branches (charge of EUR 340 million, compared with EUR 251.2 million in 2009) and to Dexia Holdings Inc. on the Financial products portfolio (charge of EUR 109.7 million, compared with EUR 60.5 million in 2009). Net interest income was also penalised in 2010 by the EUR 236 million increase in funding costs and the EUR 341 million decrease in the contribution from CLM and ALM operations.

b. Technical margin of insurance companies

The Technical margin of insurance companies line was used only to report the credit enhancement activity of FSA's insurance branch, which was sold to Assured: there was consequently no entry in 2010. The technical margin of insurance companies amounted to EUR 25.1 million for one quarter's activity in 2009, and included only those specific results that could not be assigned to another line within net banking income (NBI).

c. Other income (expenses)

Other income primarily includes net fees and commissions, gains and losses on financial instruments at fair value through profit or loss (held for trading, foreign exchange and hedging), and gains and losses on financial assets available for sale.

(EUR millions)	2009	2010	Change (value)	Change (%)
Net fees and commissions	108	111	3	2.8%
Gains (losses) on financial instruments at fair value through profit or loss	337	(59)	(396)	NA
Gains (losses) on available-for-sale financial assets	81	(481)	(562)	NA
Other income and expenses	3	4	1	33.3%
OTHER INCOME (EXPENSES)	**529**	**(425)**	**(954)**	**NA**

Net fee and commission income was slightly higher (EUR 3 million) due to the contributions of the structured loan and insurance brokerage (Dexia Sofaxis subsidiary) businesses.

Gains and losses on available-for-sale financial assets were generated by decreases (disposals or repayments) in balance sheet items, including loans, borrowings and other securities classified as available for sale.

In 2010, the line includes EUR 508 million in losses on disposals of assets carried out as part of the Group's strategy to reduce its overall exposure.

"Gains (losses) on financial instruments at fair value through profit or loss" were EUR 396 million lower.

The decline is attributable primarily to two events:

- in 2009, the line included a EUR 465 million gain on the mark-to-market of the credit default swaps within the FSA insurance operations that were sold off;
- in 2010, the line included a EUR 59 million loss on the translation losses recognised on certain entities in the light of their planned closure in 2011.

OPERATING EXPENSES

Operating expenses were EUR 32 million (5.8%) lower in 2010 at EUR 522 million, from EUR 554 million in 2009.

This decline is attributable to the cost reduction initiatives undertaken by the Dexia Group since late 2008.

(EUR millions)	2009	2010	Change
Payroll costs	(317)	(286)	- 9.8%
Other administrative expenses	(178)	(187)	5.1%
Amortisation, depreciation and impairment of tangible and intangible assets	(52)	(49)	- 5.7%
Amortisation of the acquisition costs of insurance contracts	(7)	0	NA
TOTAL GENERAL OPERATING EXPENSES	**(554)**	**(522)**	**-5.8%**
NBI	**1,852**	**189**	**NA**
Operating ratio	***29.9%***	***NA***	***NA***

a. Payroll costs

Payroll costs fell EUR 31 million (9.8%) due essentially to the reduction in the Dexia Crédit Local Group's staff.

b. Other administrative expenses

Other administrative costs increased 5.1% year on year, to EUR 187 million in 2010 from EUR 178 million in 2009. In 2010 these costs included a EUR 21 million restructuring provision in respect of the closure of the Tokyo and London branches.

c. Amortisation of the acquisition costs of insurance contracts

This line was used only to report the credit enhancement activity of FSA's insurance operations, which were sold to Assured: there was consequently no entry in 2010. Amortisation of the acquisition costs of insurance contracts amounted to EUR 7 million for one quarter's activity in 2009, and included certain general operating expenses relating to insurance contract acquisition costs that were deferred and amortised over the life of the contracts.

COST OF RISK

The cost of risk includes three distinct components, the details of which are presented below:

(EUR millions)	2009	2010	Change (value)
Impairment of available-for-sale fixed income securities	5	10	5
Impairment and losses on credit enhancement business	(272)	0	272
Impairment and losses on customer loans	(363)	(453)	(90)
TOTAL	**(630)**	**(443)**	**187**

a. Available-for-sale fixed income securities

The line is used to record additions to or recoveries of provisions on securities in the available-for-sale portfolio.

b. Credit enhancement

In 2009, the line included one quarter's impairment in respect of the FSA insurance operations that were sold to Assured.

c. Customer loans

The cost of risk on customer loans in 2010 included:

- additional impairment of EUR -559 million on the Financial products portfolio, which has been marked down by a total of EUR 2,006 million as at 31 December 2010;
- a EUR 156 million reversal of industry-specific and general provisions;
- a EUR -50 million charge on the Group's banking activities.

The quality of the portfolio of financial assets (customer loans and securities) and the policy for reserving these assets when they must be written down for impairment are demonstrated in the ratios below:

	31/12/2009	31/12/2010
Impaired financial assets / Total financial assets	0.96%	1.32%
Specific impairment / Impaired financial assets	60.0%	57.3%
Specific impairment / Total financial assets	0.57%	0.75%

INCOME FROM INVESTMENTS IN ASSOCIATES

The Dexia Crédit Local Group has not accounted for any companies using the equity method since the end of 2009; the line is therefore equal to zero in 2010, compared with a EUR 1 million loss reported in 2009.

CORPORATE INCOME TAX

This line included tax income of EUR 18 million in 2010, compared with a EUR 239 tax expense in 2009: it includes primarily a EUR 25 million tax credit for Dexia FP Holdings Inc. on the recognition of deferred tax assets.

NET INCOME

In 2010, the Group's share of the net loss came to EUR 696 million, compared with net income of EUR 269 million in 2009.

Minority interests went from a EUR 51 million profit to a EUR 31 million loss.

The Group's share of net income yields the following returns on equity (ROE):

	2009	2010
Return on equity	4.62%	-11.66%

ROE is calculated as the ratio of the Group's share of net income to average shareholders' equity (excluding minority interests and after allocation of net income [loss]). In 2010, it reflected the very sharp deterioration of earnings.

1.4. Consolidated balance sheet and equity as at 31 december 2010

The Group had total consolidated assets of EUR 361 billion as at 31 December 2010, compared with EUR 360 billion the previous year.

INTERBANK LOANS AND ADVANCES

As at 31 December 2010, the Group was a net borrower on the interbank market in the amount of EUR 55.5 billion, compared with EUR 50.1 billion as at 31 December 2009, for an increase of 10.6%.

CUSTOMER LOANS AND ADVANCES

As at 31 December 2010, the total amount of sums receivable from customers was stable at EUR 240.0 billion, compared with EUR 239.2 billion as at 31 December 2009; the 0.3% year-on-year increase was attributable to the low level of commercial activity.

SECURITIES PORTFOLIO

Total investments in government paper, bonds and other fixed income securities and in equities and other variable income securities decreased 17.5% year on year from EUR 51.9 billion to EUR 42.9 billion as at 31 December 2010. The EUR 9 billion decrease in the securities portfolio in 2010 was attributable to the continuing policy of reducing the liquidity gap.

EQUITY AND RATIOS

The equity of the Dexia Crédit Local Group, excluding minority interests, increased to EUR 0.03 billion as at 31 December 2010 from EUR 0.9 billion the previous year: the EUR 0.9 billion decrease is attributable to the unfavourable change in reserves for "unrealised or deferred gains and losses" during the period.

Excluding the impact of these unrealised items, equity would have decreased by only EUR 70 million.

Details of changes in the Group's equity are presented in the notes to the consolidated financial statements.

As at 31 December, Dexia Crédit Local had consolidated regulatory capital of:

(EUR millions)	2009	2010
Total capital	11,123	10,418
o.w. Tier 1 capital	6,668	6,547

Dexia Crédit Local has applied the Basel II principles since 1 January 2008.

In the light of the application of the Basel II principles regarding capital and risk volumes, the Tier 1 ratio came in at 9.41% (8.9% in 2009) and the total capital adequacy ratio at 14.97% (14.9% in 2009).

2. Financial statements

2.1. Income statement

(EUR millions)	2009	2010	Change 2010/2009
Net banking income	1,760	(909)	(2,669)
Operating expenses	(224)	(229)	(5)
OPERATING INCOME BEFORE COST OF RISK	**1,536**	**(1,138)**	**(2,674)**
Cost of risk	(813)	(695)	118
OPERATING INCOME	**723**	**(1,833)**	**(2,556)**
Net gains (losses) on long-term investments	66	(11)	(77)
PRE-TAX INCOME FROM CONTINUING OPERATIONS	**789**	**(1,844)**	**(2,633)**
Corporate income tax credit (expense)	(90)	314	404
NET INCOME	**699**	**(1,530)**	**(2,229)**
Basic earnings per share (EUR)	*8.03*	*(17.58)*	
Fully diluted earnings per share (EUR)	*8.03*	*(17.58)*	

The Dexia Crédit Local parent company reported a net loss of EUR 1,530 million for fiscal 2010, compared with net income of EUR 699 million in 2009.

Net banking income reflected a loss of EUR 909 million, due notably to major additions to provisions for impairment on all of the Company's banking book portfolios. EUR 501 million of that impairment was attributable to the widening of spreads in the sovereign and local authority segments. In 2009, a total of EUR 1,447 of these provisions was reversed.

Dexia Crédit Local also carried out a significant volume of asset sales, in accordance with the decision of the European Commission. A total of EUR 20 billion of non-strategic bonds and loans was sold, with a negative impact of EUR 397 million on net banking income.

This line also includes the charge on the State guarantee, which came to EUR 340 million in 2010, compared with EUR 251 million in 2009.

Operating expenses were EUR 5 million higher in 2010, due to the restructuring costs incurred on the closure of the Stockholm branch during the year and the closings of the London and Tokyo branches planned for 2011.

The cost of risk amounted to EUR 695 million, compared with EUR 813 million in 2009. The charge in 2010 includes EUR 632 million for impairment on the value in use of the Dexia Holdings Inc. subsidiary, of which Dexia Crédit Local holds a 90% share. This subsidiary is carrying FSA's residual operations, i.e. the Financial products portfolio. In 2009, the impairment on the subsidiary amounted to EUR 770 million.

The line also includes a EUR 109 million waiver of debt on a financing loan to Dexia Asia Pacific Ltd., a Dexia Crédit Local subsidiary that is expected to be closed down in 2011.

The line Capital gains (losses) on long-term investments was down sharply from 2009, which included notably the capital gain recorded on the sale of Crédit du Nord.

2.2. Balance sheet

The Company had total assets of EUR 173 billion as at 31 December 2010, down 4% from the EUR 180 billion reported the previous year. This decrease reflects the reduction of the Dexia Crédit Local Group's risk profile. It reflects both the sale of EUR 20 billion of non-strategic assets and the impact of a EUR 5 billion increase in cash collateral.

ASSETS

a. Customer loans

Outstanding customer loans, excluding those to credit institutions, amounted to EUR 45 billion as at 31 December 2010, compared with EUR 49 billion in 2009. This decrease includes the impact of the sale in 2010 of loans for EUR 4.5 billion by the Tokyo branch.

b. Held-for-trading, available-for-sale and held-to-maturity securities

The total value of these securities reached EUR 57 billion, against EUR 63 billion at the end of 2009. Changes in the various portfolios are presented in the notes to the financial statements. These securities consist mainly of French and foreign bonds, negotiable debt securities and government securities. This 10% decrease is related to the sale of a portion of the portfolio. These sales were intended to reduce the liquidity gap and the Group's risk profile.

c. Long-term equity investments

Total long-term equity investments increased EUR 0.3 billion year on year from EUR 2.6 billion to EUR 2.9 billion as at 31 December 2010, following the capital increases subscribed entirely by Dexia Crédit Local, notably in Dexia Kommunalbank Deutschland for EUR 200 million and Dexia Municipal Agency for EUR 130 million.

New investments in 2010	Name, form and capital of the company
Representing over 66% of the capital	Dexia Management Services Ltd. with capital of GBP 1,000,000

LIABILITIES

a. Banks and financial institutions

Dexia Crédit Local had total interbank debt of EUR 65 billion as at 31 December 2010, compared with EUR 84 billion the previous year. This sharp decrease reflects the strength of the funding programme carried out during the year just ended.

As at 31 December 2010, central banks had provided total funding of EUR 6.4 billion, down from EUR 10 billion the previous year.

b. Debt securities

Debt securities traditionally represent a significant portion of Dexia Crédit Local's liabilities, and they amounted to EUR 74 billion as at 31 December 2010 (EUR 67 billion in 2009). This increase reflects the strength of the funding programme carried out in 2010. Dexia Crédit Local issued EUR 28 billion in medium- and long-term debt, EUR 23 billion of which was issued with the support of the State guarantee in anticipation of the Group's exit from the guarantee mechanism.

Nearly all of the Group's long-term debt is issued by Dexia Municipal Agency.

c. Supplier payment terms

In application of Articles L.441-6-1 and D.441-4 of the French Commercial Code, every year Dexia Crédit Local must publish an aging balance analysis of its trade accounts payable by due date. Dexia Crédit Local's trade accounts payable represented an immaterial portion of the Company's total liabilities. Dexia Crédit Local generally pays its suppliers at 45 days by default, unless a contractual agreement signed with the supplier provides for payment at 30 or 60 days.

Dexia Crédit Local had trade accounts payable of EUR 1.1 million as at 31 December 2010, all of which were due in less than 30 days.

3. Five-year financial summary

	2006	2007	2008	2009	2010
EQUITY					
Capital stock (EUR)	1,327,004,846	1,327,004,846	500,513,102[(1)]	500,513,102	500,513,102
Number of shares	87,045,757	87,045,757	87,045,757	87,045,757	87,045,757
SIMPLIFIED INCOME STATEMENT (EUR)					
Revenues	5,720,380,887	6,286,809,567	9,182,903,606	4,466,379,454	2,252,572,210
Earnings before income tax, depreciation, amortisation and net impairment charges	674,274,260	1,083,821,549	566,890,589	486,708,671	(825,474,016)
Corporate income tax	60,748,365	(107,696,679)	448,898,743	(90,171,250)	314,136,349
Earnings after income tax, depreciation, amortisation and net impairment charges	472,624,576	319,477,197	(4,936,685,153)	699,114,408	(1,530,340,831)
Dividends	300,307,862	396,058,194	None	None	None
PER SHARE DATA (EUR)					
Revenues	65.72	72.22	105.50	51.31	25.88
Earnings after income tax and before depreciation, amortisation and net impairment charges	7.05	13.69	1.36	6.63	(6.07)
Corporate income tax	0.70	(1.24)	5.16	(1.04)	3.61
Earnings after income tax, depreciation, amortisation and net impairment charges	5.43	3.67	(56.71)	8.03	(17.58)
Dividends	3.45	4.55	0.00	0.00	0.00
EMPLOYEE DATA					
Employees as at 31 December	1,472	1,612	1,737	1,472	1,341
Managerial staff	1,068	1,178	1,267	1,123	1,004
Other staff	404	434	470	349	337
Gross payroll (EUR)	116,441,912	129,010,486	134,280,062	134,004,648	128,807,172
Payroll taxes and employee benefits (social security, employee benefit programmes, etc.) (EUR)	40,387,857	37,544,986	49,038,929	41,976,934	36,542,329

(1) By resolution of the Combined Shareholders' Meeting of 22 December 2008, Dexia Crédit Local has increased its capital stock in cash by EUR 3.5 billion and reduced its capital stock by EUR 4.3 billion, bringing the total capital stock to EUR 500.5 million.

Capital stock and share data

1. Capital stock and number of shares

Dexia Crédit Local has capital stock of EUR 500,513,102, divided into 87,045,757 shares, each with one voting right and none of which is pledged.

There are no other securities giving access to the capital of Dexia Crédit Local.

2. Delegation of power in respect of a capital increase

The Extraordinary Shareholders' Meeting of 26 November 2010 adopted a resolution to approve a capital increase. The Board of Directors was authorised to increase the capital stock on one occasion by an amount not to exceed EUR 1 billion by increasing the par value of the existing shares.

This authorisation, granted for a period of 26 months, was exercised by the decision of the 14 December 2010 Board of Directors to increase the capital stock by EUR 639,786,313.95 and to subsequently reduce it by the same amount.

3. Shareholder structure

The capital stock of Dexia Crédit Local is held directly and almost exclusively by Dexia SA. In accordance with Article 14 of the Company's by-laws, each member of the Board of Directors holds one registered share of its stock.

No material changes have taken place in the shareholder structure in the past five years.

	2006	2007	2008	2009	2010
Capital stock (EUR)	1,327,004,846	1,327,004,846	500,513,102	500,513,102	500,513,102
Number of shares	87,045,757	87,045,757	87,045,757	87,045,757	87,045,757
Dexia SA	99.98%	99.98%	99.98%	99.98%	99.98%
Individual investors	0.02%	0.02%	0.02%	0.02%	0.02%

Indirect ownership of the capital of Dexia Crédit Local:

- Ethias Group, the Belgian federal government, the French central government and the three Belgian Regions each hold more than 5% of the Bank's capital;
- Arco Group, a Belgian limited liability cooperative company, holds more than 13% of the Bank's capital;
- Holding Communal de Belgique, a Belgian joint stock company, holds more than 14% of the Bank's capital;
- Caisse des Dépôts et Consignations holds more than 17% of the Bank's capital.

4. Dividends paid during the past three years

Dividends paid in respect of the three previous years:

(EUR)	2007	2008	2009
Net dividend per share	4.55	0	0
Amount per share eligible for the tax allowance (Article 158.3-2 of the French General Tax Code)	4.55[1]	0	0
Total amount eligible for the tax allowance (Article 158.3-2 of the French General Tax Code)	396,058,194.35[1]	0	0

(1) At a rate of 40%.

In order to build up the Company's equity, the annual Shareholders' Meeting of 21 May 2010 decided not to pay a dividend.

In light of the results obtained during fiscal year 2010, the Shareholders' Meeting of 12 May 2011 will not be asked to pay a dividend.

Human resources and environmental data

1. Administration of human resources

1.1. Employee agreement

In the absence of agreement between the Company's management and the trade unions, management has decided to unilaterally apply, as from 1 January 2010, a fixed, general gross wage increase of 0.8% for all employees earning gross annual salaries of EUR 60,000 or less, along with a minimum raise for those earning the most modest levels of compensation.

1.2. Group employee savings plan

The following agreements were applied to calculate the amounts paid in 2010 in respect of 2009:

- the discretionary profit-sharing agreement dated 30 June 2008 in respect of fiscal years 2008, 2009 and 2010 and the amendment no.1 thereto dated 11 June 2009 in respect of fiscal years 2009 and 2010;
- the French legal profit-sharing agreement dated 29 June 2007 in respect of fiscal years 2007, 2008 and 2009.

The amounts accrued in respect of fiscal 2010 correspond to the renegotiation of the discretionary and French legal profit-sharing agreements signed 11 June 2010.

DISCRETIONARY PROFIT-SHARING (*INTÉRESSEMENT*)

Under the terms of the 30 June 2008 agreement, the amount of discretionary profit-sharing represents 0.35% of the Gross Operating Income (GOI) of the consolidated Dexia Crédit Local Group excluding FSA and excluding the impact of any changes in exchange rates.

Discretionary profit-sharing is paid only when the actual GOI of the consolidated Dexia Crédit Local Group excluding FSA and excluding the impact of any changes in exchange rates, and after factoring in any non-recurring items related to sales of assets in accordance with amendment no.1 dated 11 June 2009, is equal to at least 91% of the budgeted amount.

Employees must have been with the Group company at least three months to qualify for discretionary profit-sharing.

Discretionary profit-sharing is paid based on two criteria: 60% is prorated on the length of service of each beneficiary and 40% is proportional to the gross annual compensation paid for the year in question (capped at three times the annual social security ceiling at 31 December of that year).

The amounts paid out under the discretionary profit-sharing programme may be paid directly to the beneficiaries or invested in the Group employee savings plan (PEG). The employer makes a 30% matching contribution for all discretionary profit-sharing invested in Dexia stock via a mutual fund.

The following amounts of discretionary profit-sharing were paid in respect of the previous three years (gross amounts excluding matching contribution):

- FY 2008: in light of the financial position of the Dexia Crédit Local Group, no discretionary profit-sharing was paid;
- FY 2009: the amount allocated came to EUR 3.51 million (payment in 2010);
- FY 2010: the amount provisioned came to EUR 9.02 million (payment in 2011).

FRENCH LEGAL PROFIT-SHARING (*PARTICIPATION*)

The amount set aside for the special reserve for French legal profit-sharing (RSP) is the higher of the RSP calculated by the statutory formula and the RSP calculated using an extraordinary formula that is capped under the terms of the French legal profit-sharing agreement dated 29 June 2007.

Eligibility for French legal profit-sharing is subject to the same seniority requirement as that imposed for discretionary profit-sharing.

The amount due is prorated on the employee's salary, and is capped at four times the social security ceiling, and the total amount paid to an employee within a single year may not exceed three-quarters of that same ceiling.

Employees are required to allocate their individual profit-sharing payments to either the PEG or to a restricted savings account. Starting in fiscal year 2009, they can also be collected directly by the beneficiaries.

The following amounts of French legal profit-sharing were paid in respect of the previous three years:

- FY 2008: in light of the financial position of the Dexia Crédit Local Group, no French legal profit-sharing was paid;
- FY 2009: the amount allocated came to EUR 9.89 million (payment in 2010);
- FY 2010: in light of the financial position of the Dexia Crédit Local Group, no French legal profit-sharing was provisioned.

EMPLOYEE STOCK-OWNERSHIP PROGRAMME

Employees of Dexia Crédit Local are eligible to participate in the employee stock ownership programme (ESOP) established for the entire Dexia Group, with the understanding that no new ESOP has been set in place since 2009.

Only shares issued by Dexia SA, the Group's Belgian holding company, may be included in mutual funds or directly held by employees as part of the Group employee savings plan.

It should, moreover, be noted that under the provisions of Article L. 225-129-6, paragraph 2 of the French Commercial Code, every company is obliged, every three years, to convene an Extraordinary Shareholders' Meeting to request that it adopt a resolution requesting that a capital increase be carried out that is reserved for employees of the Company and all related companies in which the Company holds less than 3% of the capital stock.

Consequently, in order to comply with these legal obligations, it will be proposed through a series of draft resolutions submitted to the Shareholders' Meeting that the Board of Directors be delegated, for a period of 26 months, the power to increase the capital stock of the Company on one or more occasions by an amount not to exceed EUR 100,000, by issuing new shares of the Company issued at par and granting their holders the same rights as the existing shares, and reserved for employees of the Company and all related companies. The Board of Directors would be given full powers to implement the delegation of authority presented above.

As employees of Dexia Crédit Local also enjoy other employee savings plans, the shareholders will be invited by the Board, after the present report presented by the Statutory Auditors is read, to reject the resolutions relating to employee savings plans.

It is specified that since the beginning of the fiscal year, the Company has continued to exercise its normal activity.

INTERCOMPANY COLLECTIVE RETIREMENT SAVINGS PLAN *(PERCOI)*

On 11 June 2010, the Company's management and all trade unions signed an agreement to join the Dexia Intercompany Collective Retirement Savings Plan (*PERCOI*) to provide employees with a vehicle and financial assistance to prepare for their retirement. This programme rounds out the existing offer of employee savings opportunities by adding a long-term component.

1.3. Key human resources data within the UES

(Dexia Crédit Local and Dexia CLF Banque)

	2009	2010
Employees present as at 31 December	1,426	1,340
under fixed-term contracts	116	109
under long-term contracts	1,310	1,231
Analysis of changes in long-term contracts during the year		
New hires	46	67
Terminations	(161)	(124)
Resignations	(55)	(53)
Working hours		
35-hour workweek	Master agreement of 14 November 2000, with effect from 1 January 2001	
Absenteeism (all classifications of personnel)	4.08%	4.72%
Part-time employees (% of total workforce)	8.1%	9.0%
Compensation (EUR)		
Gross payroll	104,211,614	93,013,926
Employer payroll taxes	61,475,495	53,411,811
Average annual salary - men	66,856	66,927
Average annual salary - women	51,197	51,692
Training		
% of gross payroll	3.77%	3.89%
Number of days (all training programmes)	3,634	3,623
Health and safety conditions		
Number of times the Health and Safety Committee met during the year	9	14
Employee benefit programmes (EUR)		
Contribution to the funding of employee works council programmes	1,524,120	1,423,091

1.4. Compensation paid to corporate Officers and persons whose professional activities have a material impact on the risk profile of the company

Group procedures make the Compensation Committee of Dexia SA[(1)] responsible for preparation of all compensation policy-related items. The Committee's proposals are submitted to the Board of Directors of Dexia SA, which approves the appropriate actions to be taken. Once validated, the compensation policy is submitted to the Board of Directors of Dexia Credit Local for approval.

Dexia's compensation policy is set with three key principles in mind. It must be:

- consistent with appropriate market practices;
- transparent;
- compliant with regulations.

This policy is applicable to both the fixed and variable components of compensation, the general principles of which are applicable to every employee. These principles include tying compensation policies and practices to risk in order to create a balance between fixed and variable compensation that does not encourage excessive risk-taking, and establishing methods for evaluating the relationship between performance and variable compensation.

Special provisions are applicable to a specifically identified population whose functions are most often likely to impact the risk profile of the Dexia Group.

This population includes primarily the members of the Management and Executive Boards of the main Dexia Group entities, including Dexia Crédit Local, as well as employees whose total compensation exceeds EUR 350,000 per year or whose variable pay granted during any one year exceeds 100% of their annual fixed compensation.

Variable remuneration is not to exceed a multiple of fixed salary that varies with the category of personnel to which the employee belongs.

The payment of a portion of variable compensation will be deferred and subject to the fulfilment of conditions (including maintaining the level of performance) to be attained over three years (starting with the year in which the variable compensation is granted). The deferred portion of variable compensation will in principle amount to 40%. It will represent rates going from 50% to 70%, according to thresholds set for variable compensation in excess of EUR 700,000.

Variable remuneration shall be paid partly (up to a maximum of 50%) in cash and partly in the form of equity-linked instruments (equity securities or Tier 1 hybrids within the meaning of EU Directive CRD III, at the choice of the beneficiary), which will be subject to a holding period of at least one year.

In compliance with the existing legal and contractual provisions, the termination benefits granted contractually to an officer or to a financial markets professional shall not in principle exceed 12 months' fixed and variable compensation (or 18 months under special circumstances). Their payment may also be subject to a performance condition.

1.5. Organisational changes and social responsibility

NEW ORGANISATION

The first half of 2010 was marked by the deployment of the organisation of functions corresponding to the second phase of the transformation plan, with the introduction of two organisational models: a directive functional model and a strong functional model.

This second so-called "reorganisation of the functions" phase was to be put in place over two consecutive years, i.e. 2010 and 2011. All of the transfers and job eliminations planned under this reorganisation took place in 2010.

Faced with a market situation that remains particularly difficult, with strong competitive pressure and a long-term decline in profitability, on 16 September 2010 Dexia Crédit Local presented its social partners with the third and final part of the Group transformation plan, with four main objectives:

- geographical refocusing of business on the French market, while maintaining niche activities in North America and the United Kingdom;
- generalisation of the directive organisational system, inducing a change in the governance of the Operations and Information Systems, Human Resources and Communications functions in order to achieve synergies between the different parts of the Group;
- simplification of the hierarchical structure of the TFM activity at the Group level in order to make governance more effective;
- anticipation of the funding market and prospects for the local government financing market.

This project, which is currently under discussion with the Group's social partners, will have only a limited impact on employment in the light of the high proportion of unfilled positions already existing within the Company and an implementation schedule that runs through to the end of 2013.

The proposed reorganisation calls for the elimination of 82 positions, including 64 that are currently unfilled and 32 transfers between two departments or between two Dexia Crédit Local and Dexia SA entities. It also provides for the creation of seven new positions, of which six are to be in the Finance function. By using an employment and skills forecast, Dexia Crédit Local was able to identify solutions that repositioned any employees whose positions were to be eliminated.

AGREEMENTS AND INITIATIVES FOR EMPLOYEE MANAGEMENT

On 11 May 2010, the Company's management and all of the trade unions signed a "redundancy practices agreement" regarding stress in the workplace that takes up the initiatives implemented since the summer of 2009 under the Company and the Group's action plan. It includes the various measures already in place such as establishing an employee hotline, organising managerial mobilisation seminars

(1) At its meeting of 27 November 2009, the Board of Directors of Dexia Crédit Local decided not to create a special committee for the Company itself and that, in accordance with the provisions of Article 43-1 of CRB Regulation 97-02 as amended, the functions that would have been performed by the Compensation Committee of Dexia Crédit Local will be carried out by the Compensation Committee of Dexia SA. The latter will inform the Board of Directors of Dexia Crédit Local of those of its decisions that are likely to impact compensation at Dexia Crédit Local.

Management report

and sensitising managers to burnout. It reiterated the key roles played by the company doctor, social worker, Human Resources department and employee representatives in detecting and monitoring stress. In order to establish preventive and corrective actions, the Management Board decided, together with the Group's social partners, to conduct a comprehensive survey on the impact on employees of stress factors existing in the Company. The survey was launched in June 2010 and the statistical conclusions will be presented in 2011.

Lastly, an agreement concerning the representation of Dexia SA staff on secondment in France was signed on 11 June 2010. The principle of establishing a form of employee representation for Dexia SA in France was endorsed in November 2009 during the presentation of the proposed reorganisation of the functions. This negotiation resulted in the extension of the authority of the Dexia Crédit Local employee works council on organisational matters affecting Dexia staff seconded in France. This authority now extends to areas in which there may be a direct and material impact on staff members, with the exception of supervisory powers over the economic activity of Dexia SA.

For over two years, following the signing of an "equality in the workplace" agreement in July 2008, Dexia Crédit Local has established a procedure for analysing and eliminating potentially unjustified differences between salaries on the basis of gender.

2. Sustainable development

The following text is a summary of Dexia Crédit Local's sustainable development policy in 2010, as required by Articles R.225-104 and R.225-105 of the French Commercial Code, in application of Article L.225-102-1 of the French Commercial Code. The Dexia Sustainable Development department coordinates the collection of the information contained in this document with a network of correspondents in the entities and functions concerned. The reporting methods used and cross-referencing of information published with Decree 2002-221 of 20 February 2002 will be detailed at the Group level in the 2010 Sustainable Development Report published on the Group website: www.dexia.com.

2.1. Commitments to and membership in international and domestic initiatives

Dexia Crédit Local's deep commitment to sustainable development is reflected in its involvement in three United Nations programmes.

Programme	Objectives
United Nations Environment Programme (UNEP) "Statement by Financial Institutions on the Environment & Sustainable Development".	This statement is intended to encourage signatory banks and financial agencies to commit to sustainable development, notably by helping to preserve the environment.
United Nations Global Compact	Launched in July 2000 and placed under the direct authority of the Secretary General of the U.N., the "United Nations Global Compact" brings together companies that commit to implementing the goal of "sustainable development" on the basis of ten principles in the areas of human rights, labour standards, the environment, and anti-corruption measures.
United Nations Environment Programme (UNEP) "Declaration on Climate Change by the Financial Services Sector".	Launched in June 2007, on the eve of the G8 Summit in Potsdam, the "Declaration on Climate Change by the Financial Services Sector" is the financial services sector's first global commitment to address this problem. The signatories recognise the contribution of human activities to climate change and undertake to incorporate this issue into their decisions on a daily basis.

In 2010, Dexia Crédit Local transposed these commitments through a series of concrete initiatives.

Commitments undertaken by Dexia Crédit Local in line with the "Declaration on Climate Change by the Financial Services Sector"	Actions taken by Dexia Crédit Local in 2010
Develop knowledge and understanding of risks and opportunities associated with climate change.	• Organisation of regional presentations to customers concerning the institutional and regulatory environment for energy-efficient renovation of buildings and what Dexia has to offer in this field. • Founder and partner of the *Rubans du Développement Durable* sustainable development awards, which recognised 10 new sub-national authorities for their comprehensive and concrete sustainable development policies and renewed the certification for 11 sub-national authorities already recognised in 2008.

Quantify these risks and opportunities and incorporate them into lending activities.	• Implementation of the energy guidelines adopted by Dexia in November 2008 (establishment of a quantitative goal to limit the carbon footprint of loans to the energy sector).
Help customers manage the risks and opportunities associated with climate change by assessing their exposure and providing products and services that improve their ability to adapt.	• Implementation of technical and financial decision aids for the thermal renovation of public non-residential buildings and social housing units. • Dexia is proposing a "Zero CO_2" long-term leasing offer that includes, in addition to a fleet assessment, proposed replacement scenarios, green driving training and the offsetting of vehicular CO_2 emissions, for public sector customers. • Implementation of the stimulus plan for the construction and public works industry, with the creation of a global budget of EUR 1 billion in subsidised loans. • Launch of a "packaged" financing offer for the leasing of photovoltaic systems and conclusion of a partnership with Compagnie Nationale du Rhône.
Reduce Dexia Crédit Local's direct impact on climate change and its carbon footprint, assessing and disclosing the Bank's annual emissions with transparency.	• Implementation of measures to reduce the impacts of business trips. • Implementation of measures to reduce CO_2 emissions generated by energy use in Dexia's main buildings. • Performance of an energy audit of the Tour Dexia in La Défense.

2.2. Sustainable development at the sub-national level

In 2010, Dexia Crédit Local enhanced its range of products to assist customers with sustainable development in two strategic areas:

ENVIRONMENT AND ENERGY SECTOR

a. Energy efficiency of buildings

In 2010, Dexia Crédit Local reaffirmed its strategy of helping local governments and social housing corporations finance the energy-efficient renovation of their existing property base. Initially launched in early 2009, this offer is based on a partnership with Promodul, an association of building industry professionals, and the use of dedicated financing products.

On behalf of Dexia Crédit Local, Promodul adapted an energy and works audit simulation software tool that allows public policy makers to articulate a technical and financial vision. To accompany them in their projects from the outset, in 2010 Dexia Crédit Local offered 10 of its customers a free energy audit for one building.

Dexia also worked to establish dedicated financing backed by funds from the European Investment Bank and the building trade associations.

EIB packages
Since 2006, Dexia Crédit Local has been distributing budgetary packages of dedicated financing backed by funds from the European Investment Bank (EIB). Orientated toward sustainable development at the sub-national level, these envelopes are used for urban renewal projects proposed by local governments under National Agency for Urban Renewal (ANRU) programmes – EUR 1.3 billion, of which EUR 300 million are still available for distribution – and the construction and restoration of social housing units – EUR 125 million, of which EUR 20 million are still available for distribution. In 2010, Dexia and the EIB worked together on a new EUR 100 million package for energy-efficient renovation projects undertaken by local governments seeking to raise energy efficiency standards above their current level. This package will be marketed in 2011.

"2010 BPW stimulus plan" package
In late 2009, as part of a comprehensive stimulus plan for the industry, Dexia was given responsibility by various trade associations in the building and public works industry – CAPEB, FFB, FNTP and FNSCOP-BTP – for the distribution of a EUR 650 million package of subsidised loans to local governments and social landlords. The entire package, together with a EUR 400 million matching contribution from Dexia, was distributed in 2010 by the Bank's front office teams. Half of the EUR 1 billion in financing was spent on building renovation.

b. Renewable energy

For many years, Dexia has been helping local governments develop photovoltaic solar projects. In 2010, in the tradition of the French Grenelle environmental initiative, Dexia developed an innovative lease financing offer for photovoltaic facilities. In cooperation with Dexia's technical partners, this "packaged" offer allows customers to benefit from the installation, maintenance and billing administration of the service, in addition to the financing. This comprehensive solution is currently being tested in the Centre region of France: a nation-wide rollout is expected in 2011.

In 2010, Dexia Crédit Local also partnered up with Compagnie Nationale du Rhône (CNR). By combining their expertise, the Dexia and CNR partnership aims to provide local governments with a technical and financial response to their photovoltaic solar project needs.

In 2010, Dexia Crédit Local also continued to develop its portfolio of electricity generation from renewable sources projects. As Mandated Lead Arranger (MLA), Dexia Crediop arranged the financing of four solar power plants in Italy for a total installed capacity of 154.5 MWp. Dexia Crédit Local was also involved in structuring the financing of two solar power projects in Canada developed by EDN Energies Nouvelles, the Saint-Isidore and Arnprior power plants. These projects are being developed under the programme established by the Canadian province of Ontario, which encourages the production of electricity using renewable energy to contribute to the reduction of thermal power stations (coal-fired plants especially).

c. Green transport

Dexia Crédit Local provides its customers with a variety of services to promote green transport and the renewal of public transport infrastructure.

Reducing energy consumption of vehicles

In France, with its "Zero CO_2" products, Dexia Location Longue Durée offers its customers a comprehensive strategy for the prevention (green driving lessons), reduction and offsetting of the CO_2 emitted by their fleet, including a carbon audit of the fleet and its replacement with green vehicles.

Since the launch of the "Zero CO_2", offer, the emission of more than 1,000 tons of CO_2 has been avoided through the purchase and cancellation of an equivalent amount of carbon allowances.

SOCIAL WELFARE SECTOR

Along with its efforts on behalf of the environment and to promote energy efficiency, Dexia Crédit Local is maintaining its support to the social welfare sector by establishing partnerships and providing customised financial structures.

a. Autonomy and aging

In France, one quarter of all renters of social housing are currently over 60 years of age, and over the next 30 years the number of people over 65 will almost double.

Recognising the challenge an aging population poses to these clients, in 2010 Dexia renewed for two years the partnership it initiated in 2009 with Vivalib, a company that specialises in special needs housing for older people. The objective of this partnership is to keep seniors in their homes, thanks to a new concept in residential housing for the elderly. This offer is available to social landlords in the form of a dismemberment of ownership, whereby they retain only beneficiary ownership of the rental usage, allowing them to limit their consumption of capital, while institutional and private investors acquire the full ownership. Dexia provides the financing of beneficial ownership through the use of PLS-type affordable rental housing loans. An initial operation is currently being finalised.

CESU Domiserve
In 2010, Domiserve confirmed the relevance of its position in the field of social action and the development of personal assistance services, whether by issuing easy-to-use CESU-type employment cheques or organising in-home services, with local governments, retirement agencies, disability service providers and supplemental health insurance providers. Five General Councils have already chosen Domiserve for payment of the personal autonomy allowance (APA) and disability compensation benefits (PCH) to their residents. In 2010, the General Council of Seine-Maritime chose Domiserve to pay APA and PCH benefits to over 7,000 recipients. Domiserve was also selected in 2010 by AGIRC-ARRCO (compulsory private sector supplemental pension schemes) and the Special Retirement Plan of La Poste to develop social assistance benefit payment services.

b. Assistance to the disabled

Through its Dexia DS Services subsidiary, Dexia Crédit Local takes action to promote the mainstreaming and job retention of the disabled in local governments. Dexia has a individually tailored, three-stage assistance procedure specially designed for the local public sector:

- performance of a disability employment audit to define the issues and results to be achieved in terms of the recruitment, retention and mainstreaming of persons with disabilities, subcontracting and accessibility of premises;
- establishment of concrete actions for improvement;
- monitoring and evaluation of the entire process.

2.3. Social commitment

Through the Dexia France Foundation it created in 1993, Dexia Crédit Local leads programmes to promote civic spirit in the most socially excluded youth, who come from the poorer urban areas and rural regions in crisis.

Almost one million young people are helped every year by the Mission Locale, local centres for the social and professional mainstreaming of youth. Spread throughout France, 7,000 advisors help these young people overcome their difficulties and assist them in their job search and efforts to obtain training, healthcare, housing, civic rights and French nationality.

It is for these youth that the Foundation wished to commit to – and in 2010 renewed its adherence to at the 10th National Meeting of the Local Mission network at the Bercy arena – the memorandum of understanding with the National Council of Missions Locales by participating in three programmes that allow these young people to become active citizens in their communities and to build projects of benefit to society.

"SOLIDARITY AND CULTURE IN YOUR TOWNS!" CALL FOR PROJECTS

In 2010, the Dexia France Fondation launched a call for projects to enable young people to put together concrete measures to promote solidarity in areas such as housing, transportation, improvement of living conditions, the fight against discrimination and eco-citizenship. In connection with Dexia-sponsored "Culture for everyone" programmes, this call for projects aimed at facilitating access to culture through the establishment by young people of concrete initiatives with cultural institutions and projects seeking to preserve the value of their local cultural heritage with the assistance of the Fondation du Patrimoine (Heritage Foundation). The Foundation received close to 70 projects and 34 were selected. The winners included projects in Auray, where local youth organised a carpool service for the poor; Brioude, where the winners are participating in the renovation of a chapel; Cannes, where young people are campaigning to raise awareness about improving driving habits; Clermont, where young people have become eco-citizen ambassadors to the population at large; and Meaux, where local youths came up with the idea of installing Wii home video games in retirement homes and running tournaments for the residents, with the awarding of trophies.

CITIZENSHIP ACADEMY

Created by the Dexia France Foundation and the National Council of Missions Locales in 2007, every year the Citizenship Academy helps young people to acquire the principles of citizenship, living it and expressing the concept fully. In 2010, eight week-long training sessions were held for close to one hundred young people from 14 different regions. Many topics were discussed during workshops, such as unemployment of the young, discrimination, problems with defining a career plan, pension reform, violence against women, eco-citizenship, international solidarity and social commitment.

This training programme allowed them to meet and discuss citizenship with many well-known people from the local political and non-profit arenas.

CORPORATE SKILLS SPONSORSHIP

In 2010, Dexia Crédit Local extended its agreement with the National Council of Missions Locales to establish good practices for the employment of young people. Since 2006, Dexia Crédit Local and the Dexia France Foundation have established a system that allows employees of the Bank to take two hours a month out of their work schedule to sponsor young people participating in local Mission Locale youth mainstreaming centres. In 2010, close to 40 Dexia Crédit Local employees assisted youth in their search for employment.

Dexia Crédit Local is one of the first major companies to have incorporated the sponsorship of skills-building into its social policy.

2.4. Management of direct environmental impacts

The primary objective of Dexia Crédit Local's policy of reducing its direct environmental impacts is to reduce the CO_2 emitted by energy consumption in its buildings and its employees' professional travel needs:

- energy consumption:
  in France, Dexia Crédit Local has been using only green power in its main buildings since 1 January 2008. Dexia Sofaxis also has 105 m^2 of photovoltaic panels incorporated into its buildings that produced 14,650 kWh of electricity in 2010. In Italy, the headquarters of Dexia Crediop also uses green power;

- optimisation of business trips:
  increased use has been made of videoconferencing since 2008, with the installation of five videoconferencing units (including one mobile unit) in Dexia Crédit Local's building in Paris and two units in the Dexia Crediop building in Rome;

- Dexia is making a commitment in respect of its employees' commuting needs:

  - since 2007, Dexia Crediop has assumed a portion of these expenditures. Dexia Crediop has also appointed a mobility manager and formally documented its business travel policy. Other concrete steps have been taken, such as the creation of a cycle stand at Dexia Crediop's headquarters and participation in European Mobility Week;

  - Dexia Crédit Local assumes 60% of the cost of public transportation passes for those employees who work at La Défense, and 50% for employees in the regional headquarters;

  - the Dexia Crédit Local employee works council website has a system for matching up employees interested in carpooling.

Dexia Crédit Local is also maintaining its policy of generating less waste and using supplies responsibly:

- waste management and paper consumption:

  - selective sorting of waste: recycling areas are available on each floor of the Tour Dexia in Paris;

  - Dexia Crédit Local has undertaken several measures to reduce its consumption of paper, such as improving the quality of the paper it uses (and decreasing the weight) and using only recycled, bleach-free virgin, PEFC-certified paper.

Quality procedures
Dexia Crédit Local and certain of its subsidiaries observe quality procedures governing their own internal management and their relationships with their customers. In 2010, Dexia Crédit Local obtained the renewal of the ISO 9001 certification of all of its activities in France.
The total quality management strategy employed by Dexia Sofaxis is based on the use of a management system and a fourfold certification: ISO 9001, ISO 14001 (Environment), 18001 (Health and safety) and 8000 (Social accountability). Dexia Crediop's environmental management procedures have also been certified ISO 14001.

Terms and compensation of Directors and Officers

In accordance with Article L.225-102-1 of the French Commercial Code, a list is provided below of the terms and functions performed of each corporate director and officer between 1 January and 31 December 2010, as well as the compensation they were paid in respect of that period.

1. Functions and terms

CHAIRMAN OF THE BOARD OF DIRECTORS

Jean-Luc Dehaene

70 years old

Chairman of the Board of Directors of Dexia SA
Dexia SA – Place Rogier 11 – B-1210 Brussels – Belgium

- Chairman of the Board of Directors of Dexia SA
- Vice Chairman of the Board of Directors of Dexia Bank Belgium
- Director of Dexia BIL (until June 2010)
- Director of INBEV
- Director of Umicore
- Director of Lotus Bakeries
- Director of Thrombogenics
- Director of Novovil

CHIEF EXECUTIVE OFFICER AND DIRECTOR

Pascal Poupelle (until 31 december 2010)

56 years old

Member of the Management Board of Dexia SA (until December 2010)
Dexia SA – Place Rogier 11 – B-1210 Brussels – Belgium

- Vice Chairman of Dexia Crediop (until December 2010)
- Chairman of the Board of Directors of Dexia Sabadell (until December 2010)
- Permanent representative of Dexia Crédit Local, member of SOFCA-GIE (until January 2011)
- Chairman of the Board of Directors of LCL Obligations Euro (until June 2010)
- Chairman of the Board of Directors of Dexia Sofaxis (until December 2010)
- Permanent representative of Dexia Crédit Local, member of the Supervisory Board of Dexia Municipal Agency (until January 2011)
- Permanent representative of Dexia Crédit Local, director of Dexia CLF Banque (until January 2011)
- Director of Dexia Holdings, Inc. (until December 2010)
- Director of Dexia FP Holdings, Inc. (until December 2010)
- Director of Dexia Financial products Services LLC (formerly HF Services LLC) (until December 2010)
- Director of FSA Asset Management LLC (until December 2010)
- Director of FSA Capital Markets Services LLC (until December 2010)
- Director of FSA Capital Management Services LLC (until December 2010)

MEMBERS OF THE BOARD OF DIRECTORS

Fédération Nationale des Travaux Publics, represented by Patrick Bernasconi*

55 years old

Chairman of Fédération Nationale des Travaux Publics
3, rue de Berri – 75008 Paris

- Chairman of Fédération Nationale des Travaux Publics
- Chairman of Bernasconi T.P.
- Chairman of Science et Industrie

** Independent member*

- Chairman of the Board of Directors and Chief Executive Officer of L'Immobilière des Travaux Publics
- Director of SMAVIE BTP
- Permanent representative of Fédération Nationale des Travaux Publics, member of the Supervisory Board of BTP Banque
- Permanent representative of Fédération Nationale des Travaux Publics, Vice Chairman of SMA BTP
- Co-legal manager of SCI Bernasconi Frères
- Managing Partner of Casa Déco
- Director of Château des Deux Rives
- Chairman of the Board of Directors of SGAM BTP (since July 2010)

Fédération Française du Bâtiment, represented by Didier Ridoret*

59 years old

Chairman of Fédération Française du Bâtiment
33, avenue Kléber – 75016 Paris

- Chairman of Fédération Française du Bâtiment
- Co-legal manager of Elibois SARL
- Co-legal manager of France Menuisiers SARL
- Co-legal manager of Menuiseries Niortaises SARL
- Chief Executive Officer of Ridoret Menuiserie SA
- Co-legal manager of Roche Alu SARL
- Co-legal manager of Roche France SARL
- Co-legal manager of Roche PVC SARL
- Chief Executive Officer of SAG SAS
- Co-legal manager of Pont de la Reine SCI
- Vice Chairman of the Supervisory Board of BTP Banque SA
- Permanent representative of Fédération Française du Bâtiment, director, member of the Management Board of l'Union des Caisses de France du Réseau Congés Intempérie du BTP
- Permanent representative of Fédération Française du Bâtiment, non-voting board member of ECOFI Investissements SA
- Permanent representative of Fédération Française du Bâtiment, Vice Chairman of SMA BTP
- Permanent representative of Fédération Française du Bâtiment, Vice Chairman of SMAVIE BTP

- Co-legal manager of DIFRAHEL
- Chairman of the Board of Directors of SICAV BTP Obligations (since December 2010)
- Non-voting board member of SICAV BTP Associations
- Non-voting board member of SICAV BTP Rendements
- Vice Chairman of the Board of Directors of Société de Groupe d'Assurance Mutuelle du Bâtiment et des Travaux Publics (SGAM BTP) (since April 2010)
- Chairman of the Supervisory Board of Caisse de Garantie Immobilière du Bâtiment (since September 2010)

Julien Brami

36 years old

Deputy Director and Head of the Financial Services Division, Investments Department, Finance and Business Development Department of Caisse des Dépôts – 56, rue de Lille – 75007 Paris

- Member of the Board of Directors of CDC Entreprises
- Member of the Board of Directors of Fonds de Garantie des Assurances Obligatoires de Dommages (FGAO)
- Director of Global Seguros (until March 2010)
- Director of Global Vida (until March 2010)
- Member of the Board of Directors of Qualium Investissement

Jean-Pierre Brunel*

67 years old

Attorney
226, rue Georges Besse – 30000 Nîmes

- Director of Services Conseil Expertises Territoires
- Chairman of the Board of Directors of SA d'HLM Le Nouveau Logis - Centre Limousin
- Legal manager of Tradanimes (since February 2010)

Philippe Duron*

63 years old

Member of Parliament – Mayor of Caen
Esplanade Jean-Marie Louvel – 14027 Caen cedex 09

** Independent member*

Management report

Jean-Pol Henry*

67 years old

Honorary Member of the House of Representatives
118, rue de la Madeleine – 6041 Gosselies – Belgium

Pierre Mariani

54 years old

Chairman of the Management Board of Dexia SA
Dexia SA – Place Rogier 11 – B-1210 Brussels – Belgium

- Chief Executive Officer of Dexia SA
- Director of Dexia Bank Belgium
- Director of Dexia BIL
- Director and Chairman of the Audit Committee of EDF

Édouard Philippe*
(Director since 21 may 2010)

40 years old

Mayor of Le Havre – General Councillor and President of the Community of Le Havre
Place de l'Hôtel de Ville – BP 51 – 76084 Le Havre cedex

- Member of the Supervisory Board of Grand Pont Maritime du Havre

Philippe Rucheton

62 years old

Member of the Management Board of Dexia SA
Dexia SA – Place Rogier 11 – B-1210 Brussels – Belgium

- Chairman of the Supervisory Board of Dexia Municipal Agency
- Director of Dexia Asset Management Luxembourg
- Director of Denizbank AS
- Director of Dexia Holdings, Inc.
- Director of Dexia FP Holdings, Inc.
- Director of Dexia Financial products Services LLC (formerly HF Services LLC)
- Director of FSA Asset Management LLC
- Director of FSA Capital Markets Services LLC
- Director of FSA Capital Management Services LLC
- Director of Dexia Insurance Belgium
- Director of Dexia BIL (since June 2010)

Francine Swiggers

58 years old

Chairman of the Management Board of the Arco Group
6, avenue Livingstone – 1000 Brussels – Belgium

- Director of Dexia SA
- Director of Dexia Banque SA
- Director and Chairman of the Management Board of Arcofin CVBA
- Director and Chairman of the Management Board of Arcopar CVBA
- Chairman of the Board of Directors and Chairman of the Management Board of Arcoplus CVBA
- Director of Auxipar NV
- Chairman of the Board of Directors of Interfinance CVBA
- Chairman of the Board of Directors and Chairman of the Management Board of Arcosyn BV
- Director of Sofato
- Chairman of the Board of Directors of Procura
- Director of Aquafin NV
- Director of VDK – Caisse d'Épargne
- Member of the Board of Directors of De Warande
- Member of the Board of Directors of Hogeschool Universiteit Brussel
- Director of Vlerick Alumni (since June 2010)

René Thissen*

64 years old

Honorary Member of Parliament for Wallonia
23, rue de Bouhémont – 4950 Waimes – Belgium

- Director of Centre Hospitalier Chrétien
- Director of Unio Brussels ASBL
- Chairman of the Board of Directors of Société Wallonne des Eaux
- Chairman of the Board of Directors of SAGIMA SA

REPRESENTATIVES OF THE EMPLOYEE WORKS COUNCIL

Valérie Hudé (until 7 December 2010)

Isabelle Lourenço (since 7 December 2010)

Pascal Cardineaud

** Independent member*

2. Compensation and regulated agreements

2.1. Introduction

PROCEDURE

The compensation of members of the Management Board of Dexia SA – including that of the Chief Executive Officer of Dexia Crédit Local – is set by the Board of Directors of Dexia SA based on the proposals of the Appointments and Compensation Committee.

The Appointments and Compensation Committee compares the compensation paid to members of the Management Board with that of other companies in Dexia's peer group.

In this context, compensation consulting firms are asked to provide information on salary trends in the financial sector.

To provide compensation that is in line with market practices, every two years the Appointments and Compensation Committee requests a benchmarking study. In 2010 this study was conducted with the assistance of Towers Watson, an external consultant specialised in the field.

The Appointments and Compensation Committee determines the composition of the benchmark group of companies included in the study and the positioning of Dexia within this group.

Once this benchmark has been analysed, the Appointments and Compensation Committee recommends to the Board of Directors any increases in the fixed compensation paid to members of the Management Board of Dexia SA, along with any suggested changes in the scale of variable compensation and all modifications justified by changing market practices.

During the year in which the Appointments and Compensation Committee does not require a benchmark, it is informed by its outside consultant (specialising in compensation) of all changes in the market for executive compensation.

REGULATORY CONTEXT

Executive compensation for companies in the financial sector has been the subject of many regulations over the past two years.

The Board of Directors immediately undertook to comply with the provisions of the regulatory framework as it changes in accordance with domestic and international initiatives to strengthen corporate governance, especially as regards compensation, and the circulars published by the Belgian Banking, Finance and Insurance Commission (CBFA).

Against this background, last year Dexia even opted for early application of the obligations pertaining to the financial sector, in particular as regards the spreading over time of variable compensation.

In 2010, Dexia revised its compensation policy in the light of recent initiatives in this field and forwarded to the CBFA a comprehensive compensation policy for the Dexia Group that is compliant with all Belgian and European regulations and with recent principles with regard to sound compensation practices.

In accordance with these regulations, Dexia retroactively modified the terms of all variable compensation paid in 2011 in respect of 2010, and accordingly adjusted its compensation policy retroactively.

Dexia's compensation policy was prepared by the Human Resources department in collaboration with the Internal Audit, Risk Management and Compliance, Legal and Tax departments, and submitted to the Appointments and Compensation Committee of Dexia SA.

The Committee's recommendations were submitted to the Board of Directors of Dexia SA, which approved the Group's compensation policy. The Board of Directors of Dexia Crédit Local approved all relevant portions of the Dexia Group compensation policy, as well as all provisions applicable to employees of Dexia Crédit Local.

The compensation policy applicable to all compensation paid as from the 2011 fiscal year establishes the general principles applicable to all employees of the Dexia Group. In accordance with the principle of proportionality, it also contains specific provisions applicable solely to a particular group of people identified as being likely to impact the risk profile of the Dexia Group because of the nature or level of their duties and/or their compensation.

GUIDELINES ADOPTED IN ACCORDANCE WITH REGULATIONS

In the light of the guidelines set out notably in the Royal Decree of 22 February 2011[1], the Board of Directors revised the balancing of the compensation packages of the Group's corporate Officers and senior management.

This revision is intended to reduce the incentive to take excessive risk that can be induced by too high a level of variable compensation in relation to fixed compensation.

Without increasing costs, it will also significantly scale back variable compensation while ensuring that the Group's executive management continue to receive a competitive package.

2.2. Compensation of members of the Management Board[2]

FIXED AND VARIABLE COMPENSATION

The compensation of the members of the Management Board comprises both a fixed and a variable component.

The fixed and variable compensation of the members of the Management Board constitutes a whole from which is deducted, unless otherwise decided by the Board of Directors on the recommendation of the Appointments and Compensation Committee, all Directors' fees or portions thereof paid to a member

(1) Royal Decree approving the Banking, Finance and Insurance Commission's 8 February 2011 regulation regarding the compensation policy for financial institutions.
(2) As used in the present section, the term refers to the members of the Management Board of Dexia SA, some of whom are on the Board of Directors of Dexia Crédit Local.

of the Management Board by a Dexia Group company or an unrelated company in which the member serves as a director in the name and on behalf of Dexia.

COMPENSATION IN RESPECT OF 2010

a. Fixed compensation

Base compensation

Base compensation is based on the types and importance of the duties performed by each individual (and taking account of market benchmarks for similarly-scaled functions).

Summary of fixed component of compensation

(in EUR)	Fixed compensation paid in 2009	Entertainment expenses	Other benefits(1)
Pierre Mariani	1,000,000	6,324	2,264
Pascal Poupelle	500,000	-	720
Philippe Rucheton	500,000	6,324	1,938

(in EUR)	Fixed compensation paid in 2010	Entertainment expenses	Other benefits(1)
Pierre Mariani	1,000,000	6,324	3,087
Pascal Poupelle	500,000	-	2,921
Philippe Rucheton	500,000	6,324	2,174

(1) These amounts correspond to the assignment of a company car that can also be used for private purposes.

Responsibility allowance

In accordance with the aforementioned, the Board of Directors decided to reduce all variable compensation dependent on the performance of members of the Management Board in order to reduce the potential incentive to take excessive risk.

Accordingly, the Board of Directors decided to grant members of the Management Board a responsibility allowance that is not related to performance and is paid quarterly. This allowance will be paid for the first time on 1 April 2011 in respect of 2010. Variable compensation and the size of the latter will be reduced proportionately.

In this way, and in accordance with Article 7,L of the Royal Decree of 22 February 2011, the Board of Directors increased fixed compensation, which must represent a significant share of total compensation.

On the basis of the decisions of the Board of Directors, the responsibility allowance amounts to:

(in EUR)	
Pierre Mariani	200,000
Pascal Poupelle	-
Philippe Rucheton	100,000

b. Variable compensation in respect of 2010

Principles

At least 50% of total variable compensation will be granted in the form of equity instruments.

At the choice of the beneficiary, these instruments will give the right to:
- a cash payment indexed to the stock price, or
- a payment in the form of a Tier 1 hybrid instrument.

Spreading of variable compensation

No less than 40% of total variable compensation shall be deferred.

The principle by which variable compensation is spread is applicable to all variable compensation.

The deferral period is for three years following the year in which the variable compensation is due. The deferred portion of variable compensation will be paid out in thirds during the years 2012, 2013 and 2014, provided that the conditions described below are met:

- each time a deferred portion of variable compensation is to be paid, the Board of Directors will check, on the recommendation of the Appointments and Compensation Committee, that the performance of the member of the Management Board has not deteriorated;
- the member of the Management Board must still be in the employment of the Group at the time the various deferred portions are paid. In the event that the member resigns from the Group voluntarily or is terminated for gross or wilful misconduct, the deferred portions of that person's variable compensation shall be forfeited unless decided otherwise by the Board of Directors on the recommendation of the Appointments and Compensation Committee.

Holding period

Any equity instruments in which form a portion of variable compensation is granted are subject to a one-year holding period.

Retroactive adjustment of variable compensation

Variable compensation may be adjusted in the event of poor individual or collective performance.

Application of these principles in respect of 2010

The Board of Directors formally noted that all the objectives of the transformation plan had been achieved and even exceeded in 2010.

As in 2009, the Board of Directors stated that variable pay in respect of fiscal year 2010 must be less than it would have been pre-crisis for the same job function.

The Board of Directors recalled that no stock options or stock grants were allocated during 2010.

Summary of variable compensation

(in EUR)	2009	2010
Pierre Mariani	800,000	600,000
Pascal Poupelle	300,000	-
Philippe Rucheton	300,000	200,000

In accordance with the Dexia compensation policy, the amounts presented in this table are paid over a period of two to three years.

In accordance with the rules of the compensation policy adopted by the Board of Directors, 30% of variable compensation is paid immediately in cash. The balance is deferred over time.

Summary of spreading over time of variable compensation

(in EUR)		Amount paid in 2011	Amount paid in 2012	Amount paid in 2013	Amount paid in 2014	Amount paid in 2015	TOTAL
Pierre Mariani	Cash	180,000	40,000	40,000	40,000	-	300,000
	Instrument*	-	180,000	40,000	40,000	40,000	300,000
Philippe Rucheton	Cash	60,000	13,333	13,333	13,333	-	100,000
	Instrument*	-	60,000	13,333	13,333	13,333	100,000

** The equivalent value of the equity instruments is freed up after a one-year holding period following the vesting of the rights, as shown in the table.*

DEFERRED PORTION OF 2009 VARIABLE COMPENSATION DUE IN 2011

Principles

In 2009, the Board of Directors decided to apply principles allowing variable compensation to be tied to performance over the long term. To do this, the payment of variable compensation was deferred and subjected to certain conditions that must be achieved over several years. As such, the deferred portion is tied to the share price, and may be adjusted in the event of poor performance.

Conditions of allocation and payment of variable compensation

The awarding and payment of variable compensation to members of the Management Board in respect of 2009 was conditioned on:
– in addition to the maintenance of the level of performance and compliance with the commitments made to the European Commission
– the non-renewal of the State guarantees on interbank loans and bond issues after 30 June 2010.

Spreading of variable compensation

In accordance with the principles mentioned above, payment of the variable compensation of members of the Management Board for the year 2009 will be spread over three years, with the deferred portion calculated under the following conditions:

- In n+1 (i.e. 2010), the member of the Management Board will receive:
  - for that portion that does not exceed EUR 50,000: 100%
  - for that portion between EUR 50,000 and EUR 100,000: 50%
  - for that portion that exceeds EUR 100,000: 33%
- The member of the Management Board is likely to receive the remainder, under the conditions described above, in n+2 (i.e. 2011) and n+3 (i.e. 2012), provided that he is still employed by the Group at the time the various payments are made. In the event that the beneficiary resigns from the Group voluntarily or is terminated for gross or wilful misconduct, the deferred portions shall be forfeited unless decided otherwise by the Board of Directors on the recommendation of the Appointments and Compensation Committee.

In order to index the deferred portion to the share price during the period of deferral and thus closely tie the interests of the members of the Management Board to those of the shareholders (in a long-term vision), the deferred portion has been converted into a number of Dexia shares, on the basis of the reference share price of EUR 4.253, corresponding to the average closing prices of Dexia stock on Euronext Brussels during the 30 days preceding 1 March 2010.

At the time of any payment of the deferred portion, its value shall be calculated on the basis of a reference price corresponding to the average closing price of Dexia stock on Euronext Brussels during the 30 days preceding the 1 March of the year in which payment is made.

Arrangements in relation to recent initiatives regarding corporate governance

As the Board of Directors reserved the right, the conditions for payment of the deferred portion of variable compensation for 2009 were revised in the light of recent principles and provisions adopted for good governance and sound compensation practices.

Pursuant to the provisions of EU Directive CRD III(1) as specified by the recommendations of the Committee of European Banking Supervisors, the principle of indexing variable compensation to stock price may be limited to half the total value of variable compensation.

It was therefore decided that half of the equity instruments representing the deferred portion of variable compensation in 2009 will be valued at the reference price on which basis the equity instruments were originally converted.

(1) Directive of 14 June 2006 amending European Parliament Council Directives Nos. 2006/48/EC regarding access to the business of credit institutions and its exercise and 2006/49/EC regarding capital adequacy for investment firms and credit institutions.

Changes in the deferred portion of 2009 compensation due in 2011 and 2012

(in EUR)		Amount paid in 2010	Amount paid in 2011	Amount paid in 2012	TOTAL
Pierre Mariani	Cash	308,333	128,768	128,768	565,869
	Value of instruments at grant date(1)(2)	-	128,768	128,768	257,536
	Value of instruments at payment date(2)	-	95,524	-	95,524
Philippe Rucheton	Cash	141,667	41,467	41,467	224,601
	Value of instruments at grant date(1)(2)	-	41,467	41,467	82,934
	Value of instruments at payment date(2)	-	30,761	-	30,761
Pascal Poupelle	Cash	141,667	41,467	41,467	224,601
	Value of instruments at grant date(1)(2)	-	41,467	41,467	82,934
	Value of instruments at payment date(2)	-	30,761	-	30,761

(1) The amounts shown in respect of 2012 will have to be adjusted on the basis of the share price in March 2012.

(2) The amounts are different from those presented in the 2009 annual report because they were adjusted following the issuance of bonus shares decided by the Dexia SA ESM of 12 May 2010.

In the light of the adjustment following the issuance of bonus shares decided by the Extraordinary Shareholders’ Meeting on 12 May 2010 and changes in share price, the amounts paid to members of the Management Board in March 2011 were 13% lower than their initial value.

DISCRETIONARY SUPPLEMENTAL PENSION PLANS

Some members of the Management Board participate in a discretionary supplemental pension plan established by Dexia. Different schemes are applicable to each member:

Pierre Mariani and Philippe Rucheton participate in a new discretionary supplemental pension plan for members of the Management Board with Belgian employment contracts. Upon retirement, they will be entitled to receive all of the capital generated by the investment of the annual contributions. The latter are calculated as a fixed percentage of their capped annual fixed compensation.

Annual premiums of EUR 537,450 were paid in 2010 on behalf of the members of the Management Board with Belgian employment contracts, including EUR 147,183 for Pierre Mariani et EUR 97,007 for Philippe Rucheton.

Collective annual premiums of EUR 211,110 were paid in 2010 on behalf of members of the Management Board with Belgian employment contracts for supplemental death, permanent disability and health coverage, including EUR 70,767 for Pierre Mariani and EUR 59,529 for Philippe Rucheton.

Collective annual premiums of EUR 6,015 were paid in 2010 on behalf of the member of the Management Board with a French employment contract, Pascal Poupelle, for mandatory and supplemental death, permanent disability and health coverage.

CONDITIONS OF TERMINATION

In the event Dexia should terminate its employment contract with Pierre Mariani, the latter shall be entitled to receive a one-time lump sum severance payment based on the AFEP-MEDEF rules in effect.

In the event Dexia should terminate its employment contract with Philippe Rucheton, the latter shall be entitled to receive, within 12 months of a change of control, an indemnity equal to the fixed and variable compensation corresponding to a period of 18 months, notwithstanding any rules of common law which may, if appropriate, apply.

Upon his departure from Dexia, Pascal Poupelle received, in respect of the termination of his contract, an amount equivalent to his variable compensation in respect of the year 2010 plus a benefit equal to 12 months’ fixed compensation.

2.3. Directors’ fees

The amount of Directors’ fees paid to Directors of Dexia Crédit Local was set by the Shareholders' Meeting of 14 May 2009 at EUR 225,000. A total of EUR 150,500 was paid in respect of fiscal year 2010. Detailed information regarding these attendance-based allocations is provided in the table below:

Summary of Directors' fees paid by Dexia Crédit Local

Member	Directors' fees paid in respect of FY 2009	Directors' fees paid in respect of FY 2010
Julien Brami	2,500	15,000
Jean-Pierre Brunel	21,000[(1)]	21,000[(1)]
Jean-Luc Dehaene	0[(2)]	0[(2)]
Philippe Duron	5,000	12,500
FFB (Didier Ridoret)	7,500	15,000
FNTP (Patrick Bernasconi)	18,500[(1)]	21,000[(1)]
Jean-Pol Henry	11,250[(3)]	11,250[(3)]
Pierre Mariani	0	0
Pascal Poupelle	0	0
Philippe Rucheton	0	0
Antoine Rufenacht[(4)]	2,500	-
Édouard Philippe[(5)]	-	15,000
Francine Swiggers	13,875[(6)(7)]	15,750[(6)(7)]
René Thissen	9,375[(3)]	11,250[(3)]
TOTAL	**104,000**	**137,750**

(1) Includes amount paid for participation in the Audit Committee.
(2) Dexia SA paid Jean-Luc Dehaene compensation in respect of his functions of director and Chairman of the Board of Directors at Dexia SA amounting to EUR 88,000 for FY 2009 and EUR 88,000 for FY 2010.
(3) Net of withholding tax.
(4) Resigned 24 September 2009.
(5) Appointed 21 May 2010.
(6) Dexia SA paid Francine Swiggers compensation in respect of her functions of director at Dexia SA amounting to EUR 46,000 for FY 2009 and EUR 46,000 for FY 2010.
(7) Includes amount paid for participation in the Audit Committee, and net of withholding tax.

Significant events and outlook

1. Significant events

After generally improving in 2009, conditions of access to financial markets were rather mixed during 2010, especially with the increase in sovereign risk in Europe.

Above and beyond the objectives initially set, Dexia continued to take all necessary measures to restore its financial strength, notably by reducing its portfolios and short-term funding requirements. Accomplishing this allowed the Dexia Group to regain its financial autonomy by exiting the State guarantee mechanism in June 2010.

The February 2010 agreement with the European Commission played a major role in 2010 and will continue to do so in the years to come.

1.1. European Commission decision

In July 2010, the European Commission published the final decision taken on 26 February 2010 authorising the aid extended to Dexia by the Belgian, French and Luxembourg governments.

This decision brought an end to the in-depth investigation carried out by the European Commission. Dexia's long-term viability was confirmed by the European Commission, which also approved Dexia's restructuring plan and acknowledged the main progresses made.

The approval of the European Commission, which fits perfectly with the strategy embodied by the Group's transformation plan, allows Dexia to continue to develop its core businesses in its traditional markets, i.e. France, Belgium and Luxembourg, as well as in Turkey.

1.2. Exit from the State guarantee mechanism

On 30 June 2010, Dexia fully exited the State funding guarantee mechanism set in place in October 2008.

In the light of its improved liquidity position and in accordance with its commitments to the European Commission, the Group stopped issuing guaranteed debt four months prior to the official 30 October 2010 deadline. The exit process was completed gradually, with Dexia waiving as from October 2009 the benefit of the guarantee for contracts with a maturity of up to one month and contracts with no fixed maturity. The Group then stopped using the guarantee for its deposit contracts, including notably interbank deposits, as from 1 March 2010, before definitively ceasing all use of the guarantee on funding with a maturity of less than one year as from 31 May 2010 and all medium- and long-term funding as from 30 June 2010. All outstanding instruments issued under the State guarantee mechanism before 30 June 2010 continue to benefit from the said guarantee in accordance with their terms and conditions.

The debt covered by the guarantee is allocated primarily to the funding of the Group's Legacy Division, which assets should reduce significantly by 2014 thanks to the major efforts being made to reduce the balance sheet.

Dexia issued total medium- and long-term debt of EUR 44.4 billion in 2010, including EUR 42.1 billion for the Dexia Crédit Local Group (EUR 19.1 billion of which by Dexia Crédit Local itself).

1.3. Continuing divestitures

In line with the European Commission's decision, Dexia stepped up its balance sheet reduction programme. A total of EUR 27.2 billion of non-strategic bonds and loans was sold in 2010, compared with EUR 18.3 billion in 2009. Following the sales of FSA Holdings Ltd in July 2009 and the Group's stake in Assured Guaranty Ltd in March 2010, other entities and equity investments were also sold off, including most notably Crédit du Nord (Dexia held 20%: 10% by Dexia Crédit Local and 10% by Dexia Bank Belgium), Dexia Épargne Pension (Dexia held 100%, of which 12.25% were held by Dexia Crédit Local) and SPE (a company active in the energy sector in which Dexia held a 6.13% stake).

In November 2010 Dexia reached an agreement with Penta Investments, an investment company in Central Europe, for the sale of its 88.71% stake (via Dexia Crédit Local and its Dexia Kommunalkredit Bank subsidiary) in Dexia banka Slovensko. This transaction was included in the commitments made to the European Commission in February 2010, which called for Dexia to sell its stake in Dexia banka Slovensko before 31 October 2012.

The transaction is expected to close during the first half of 2011.

1.4. Reduction of the risk profile

The combination of the rapid execution of the long-term funding programme and an alignment of the new commitments of the Public and Wholesale Banking business with Dexia's long-term funding capacity allowed the Group to improve its risk profile and liquidity position significantly.

This enabled the Group to reduce its short-term funding requirements as at 31 December 2010 by approximately EUR 47 billion compared with the previous year. The Group gradually reduced its reliance on funding covered by the State guarantee and contributions from central banks.

1.5. Dexia 2014 strategic plan(1)

The strategy that Dexia has established for 2014 aims to:

- finalise the Group's financial restructuring, with a focus on revenue generated by the Group's core markets;
- confirm and develop its commercial strengths;
- optimise its business model, by identifying synergies and increasing efficiency.

By 2014, the Group will have reduced the size of its balance sheet by 35% to under EUR 430 billion and made a profound change in its funding structure in order to have the short-term portion of its funding represent no more than 11% of the total.

Dexia will have improved the quality of its revenue by reducing the share provided by financial markets activities (transformation of and income from the investment portfolios) and increasing those generated by its commercial banking activities, which will account for 95% of the Group's total estimated revenue.

The Group will continue its effort to reduce costs in order to achieve an operating ratio below 65% in 2014.

Dexia's goal in the French Public and Wholesale Banking business is to be a highly selective, profitable and recognised specialist, with a clientele of 2,500 strategic customers and a broader product offering (thanks notably to developments in the insurance, asset management and investment products sectors, etc.). This objective is confirmed by the current situation observed in 2010, which saw new lending divided by 2.5 compared with its level in 2008. Dexia has adopted a proactive approach of maintaining clarity and transparency with its customers with regard to all policies concerning the marketing of structured loans.

1.6. Strengthening the Dexia management team

In December 2010, the Group built an even stronger management team, one that is well-suited to carrying out the next step in the Dexia 2014 strategic plan.

The Management Board of Dexia SA was expanded to 10 members in order to assemble the critical skills required to enable Dexia to achieve the objectives of its strategic plan.

Alain Clot was named head of the Public and Wholesale Banking business, replacing Pascal Poupelle who had expressed his desire to leave the Group. Alain Clot was appointed Chief Executive Officer of Dexia Crédit Local by the Company's Board of Directors.

1.7. Increasing Dexia Crédit Local's equity

Dexia increased Dexia Crédit Local's equity by EUR 640 million by converting a subordinated loan that the Group had previously extended to its subsidiary. The purpose of this operation was to make Dexia Crédit Local compliant with its legal and regulatory obligations, especially following the Bank's recognition of impairment losses on its securities portfolio.

1.8. Industrial partnership between Crédit Mutuel-CIC and Dexia

In September 2010, the Crédit Mutuel-CIC and Dexia groups signed a letter of commitment for the establishment of an industrial partnership. The agreement bears on Dexia Crédit Local's commercial banking activities with its local public sector customers in France.

The partnership will cover the providing of a shared platform for commercial banking and related services, which are currently being provided by Crédit du Nord until the end of 2012.

The industrial platform provided by the Crédit Mutuel-CIC group will allow the Dexia Group to benefit from premier banking services, thereby enabling the Bank to provide its own customers with a broad range of high-performance services.

1.9. Quality strategy

In 2010, the ISO 9001 certification of all of Dexia Crédit Local's commercial, financial and administrative activities in France was renewed.

The quality management strategy employed by Dexia Sofaxis is based on the use of a management system and a fourfold certification: ISO 9001, ISO 14001 (Environment), 18001 (Health and safety) and 8000 (Social accountability).

Dexia Crédiop's environmental management procedures have also been certified ISO 14001.

(1) The strategy described in this chapter took account of the financial and economic conditions prevailing and information available at the time it was prepared. Certain adjustments may be made, especially in the event of any material changes in market conditions, legislation and regulations (including accounting principles) or regulatory supervision.

2. Outlook

The outlook for the Dexia Group was presented to investors and members of the media in October 2010. The horizon selected was the year 2014, by which date Dexia intends to have completed its financial restructuring, consolidated and grown its strongest commercial operations and optimised its business model.

Naturally, this restructuring also affects the banking and financial services that the Group provides to the local public sector, which have already been refocused on its traditional markets: France for Dexia Crédit Local and Belgium for Dexia Bank Belgium.

Before presenting the strategies that Dexia Crédit Local intends to pursue, the state of and financial outlook for the local public sector in Europe and France are first discussed below.

2.1. Financial state of the local public sector: observations and outlook

IN EUROPE

Top players in the fields of social services and investment within the European Union, local governments have been affected by the impacts of both the economic and financial crisis and the stimulus plans, which placed considerable demands on their finances. Now they must pick their way carefully between austerity measures and recovery.

In 2009 (last year for which Eurostat data is available), tax revenues and revenue from assets decreased in volume by 4.5% and 14% respectively, offset by a 6.9% increase in grants and subsidies, reflecting central government support of the local sector under the framework of stimulus plans. Overall, total local public sector revenues increased by 1.5% year-on-year to EUR 1,572 billion in 2009. Local expenditure increased by 2.7%, driven by growth in social benefits (+5.6%), to EUR 1,636 billion in 2009, representing respectively 13.9% and 27.3% of the GDP and public spending of the European Union.

Local investment also experienced a relatively significant rise, increasing by 3.3% overall and by more than 5% in 12 European countries including the United Kingdom, the Netherlands, Spain and Poland. Financial charges fell 20.0% in 2009, due to lower interest rates and the decline in local debt outstandings in previous years.

In all, increasing expenditure and slower revenue growth resulted in higher borrowing needs and an average increase in debt outstanding of 9.0% during the 12 months of the year to EUR 762 billion as at 31 December 2009.

European local governments were once again subjected to a great deal of instability in 2010, caught as they were in the crossfire of internal and external constraints, such as the weakness of the economic recovery, which did not allow local governments to project a significant increase in revenue for those sensitive to economic conditions; the ongoing social crisis, which continued to weigh upon social spending; the commitment of many local governments to capital expenditure programmes that cannot be easily interrupted; and the new budgetary restrictions imposed by central governments under the terms of their national austerity plans. The latter are expected to have a direct or indirect impact on local governments not just in 2010 but over the longer term as well.

Several governments have also decided to freeze or reduce their financial transfers to the local sector. This is the case in France, with the freezing of grants to local governments starting with the period 2011-2013; in Italy, with a total decrease in State grants to regions, provinces and municipalities of nearly EUR 6 billion in 2011 and 2012; and in the United Kingdom. In the European Union, State grants to local governments are therefore expected to either increase at a slower rate or even decline in 2010. This decrease could however be offset by a certain degree of increased tax revenues, resulting less from any economic recovery than from central government decisions to generate new tax revenues. Finally, one may expect local governments to decide to increase their local taxes, fees and even rates on public services.

Local expenditures are expected to rise less than in 2009, driven by programmes to reduce public spending that are either imposed by central governments or adopted by the local governments themselves. The decline in spending in 2010 will also be favoured by macroeconomic conditions, especially trends in inflation (which affects several key components of current spending) and short- and long-term interest rates that drive interest costs lower.

Despite these fiscal austerity measures and productivity initiatives on the part of local governments, local spending will nevertheless be constrained by short-term social imperatives such as unemployment, social inclusion and support for low-income households.

When the final results come in for 2010, in most European countries one will therefore probably see a decrease in the flexibility available to local governments due to stagnating revenues combined with the need to maintain a certain level of expenditure, creating persistent local budget imbalances in most of the Member States. The decline in savings could then result in an increased use of debt in 2010, and therefore an increase in the outstanding debt of the local public sector.

In the medium term, some improvement in self-financing is expected to be observed, thanks to higher revenues (economic recovery, impact of tax reforms) and control over expenditure (limiting of current expenses, lower capital expenditure), which could result in less borrowing. This decrease may also be brought about by restrictions on borrowing. The implementation of austerity plans is, in fact, often accompanied by a tightening of financial monitoring mechanisms and budgetary oversight for local governments by central government under the terms of finance acts and internal stability pacts.

While local governments, which are an integral part of government, must necessarily be associated with collective efforts to control public finances, the (direct) weight of the local public sector on the deficits and debts of the public sector as a whole should nevertheless be put into perspective. The local public sector deficit accounted for 0.5% of GDP and 7.9% of the entire public deficit of the European Union in 2009. Similarly, despite the sharp rise in local public debt outstanding in 2009, it continues to represent only a moderate portion of both

GDP (6.5%) and total public debt (8.7%) in the European Union. This moderation is attributable primarily to the prevailing rule in most countries that the local public sector may use long-term borrowing only to finance capital spending. There is also a battery of qualitative and quantitative rules (prior authorisation, funding methods, caps on borrowing and debt service levels, etc.) that strongly limits the use of local borrowing in many European countries.

IN FRANCE

In 2010, the very strong growth in income received by local governments from transfer tax on real estate transactions (+32%) helped support the needed growth in current revenues. Excluding this cyclical effect, changes in other operating resources slowed: notably, state grants increased only slightly due to an indexation of the amount of assistance that may be provided that is limited to half the rate of inflation.

Operating expenditure decreased slightly, in connection with the completion of transfers of powers under the second stage of decentralisation [*Acte II de la décentralisation*]. However, the impact of the economic crisis and the cost of the approval of the *Revenue de Solidarité Active* (RSA) guaranteed minimum income allocations for a full 12 months resulted in an even stronger increase in social spending (+7%).

These trends led to a 4.7% increase in the total net operating surplus [*l'épargne de gestion*] to EUR 39.4 billion, breaking with the downward trend of recent years. Gross saving [*l'épargne brute*] also benefited from a further decline in interest charges (-5.4%, after -11% in 2009), which represented only 3% of operating expenditures in 2010.

After remaining fairly unchanged in 2009, local capital spending declined by 2.1% in 2010. Despite this decline, atypical for a third year of a municipal mandate, capital expenditure remains high (EUR 51.7 billion), funded to the tune of 91% by own resources, with the balance provided by a lesser increase in debt than that seen in 2009 (EUR 4.7 billion, after an increase of EUR 6.7 billion in 2009). French local governments therefore had total outstanding debt of EUR 138.3 billion as at 31 December 2010.

Current constraints on public finance and local sector-specific measures will have the following impacts on local budgets in 2011 and the years to follow: freezing of grants, tax reform, strengthening of equalisation mechanisms, and a moratorium on standards. The impacts of the implementation of territorial reform and the announced reform of the so-called "dependence" system will be felt at a later date.

Against this background of increasing rigidity in the generation of resources, if local governments are to maintain the quality of the services they provide and their ability to invest it will likely require an increasing identification of ways to optimise the processes employed to deliver public services, a selective control of capital expenditure, more productive use of property and other assets, and the use of innovative financing and management methods.

2.2. Dexia Crédit Local's responses

Strengthened by the progress already made to carry out a major financial restructuring of the Group while investing in its businesses to adapt to this new environment, in October 2010 the Dexia Group presented its financial and business goals for the year 2014. This strategic plan will provide the Dexia Group with a healthy revenue base, generated by its banking businesses and no longer by its financial markets activities; a balance sheet whose size will have been reduced by a third; an investment portfolio consistent with the norm for the sector; with a profound change in its funding structure in order to have the short-term portion of its funding represent no more than 11% of the total. Finally, Dexia will strive for operational excellence by identifying efficiency gains, developing internal synergies and industrialising processes.

The refocusing of the banking and financial services that the Group provides to the local public sector on Dexia's traditional markets resulted in a significant decrease in new lending, along with a significant reduction of the cost base over the same period. This activity will represent about 18% of Dexia's total revenues in 2014, and be funded primarily through the issuance of covered bonds and the collection of deposits by the Public and Wholesale Banking business line.

In this context, Dexia Crédit Local will be striving to achieve the following goals for the financial services it provides to the local public sector in France and abroad, and in the field of project finance.

FINANCIAL SERVICES FOR THE LOCAL PUBLIC SECTOR

In a period marked by slower growth in the operating revenue available to local governments, Dexia Crédit Local is now offering cost containment solutions in areas such as social benefits disbursement (Domiserve), human resources optimisation (Dexia DS Services), automobile leasing (Dexia LLD) and sale/leaseback of buildings (Exterimmo).

By 2014, Dexia Crédit Local's goal is to continue to diversify its offer to the local public sector by proposing the entire range of services offered by Dexia in addition to loans. The expansion and improvement of the services offered will be on of the Group's main priorities. The establishment of a new banking platform is part of this strategy: planned to start up in 2012 through the partnership inked in 2010 with Credit Mutuel-CIC, the platform will provide better services, particularly in the areas of online services and bank payment systems.

The financial partner of choice for French local governments, Dexia Crédit Local will also continue to take proactive strides to respect the initiative it launched in 2009 to always be clear and transparent with regard to its policies for the marketing of structured loans. Monitoring has been improved: once a year and on each transaction, the valuation of the structured loan is provided to the customer. The classification of loans set up in accordance with the "Code of conduct between banking institutions and local governments" that took effect on 1 January 2010 provides a framework for the marketing of structured loans.

PROJECT FINANCE

The project finance market experienced strong growth in 2010 in both of the regions in which Dexia Crédit Local participates: in Europe, the amount of financing raised increased from EUR 38 billion in 2009 to EUR 56 billion in 2010, and the growth rate was similar in North America, where new financing rose from EUR 22 billion to EUR 32 billion. In all, over 400 transactions were finalised in these two regions in 2010.

In 2010, Dexia Crédit Local acted as Lead Manager on some 50 deals by focusing on four sectors: energy (particularly renewable energy), environment, social infrastructure and transport (mainly, for the latter two sectors, under public-private partnerships). This volume of transactions confirms Dexia's position as a leading bank player in these industries and regions.

The project finance market should continue to grow in 2011, as this funding structure is one of the most appropriate agents for economic stimulus or recovery by limiting the amount of capital expenditure required of both private operators and public authorities.

REST OF WORLD

Dexia continued to implement its transformation plan abroad in 2010, with the closure of the Group's Swedish location in March. In accordance with the directives of the European Commission, Dexia will continue to prepare the sales of its Italian (Dexia Crediop) and Spanish (Dexia Sabadell) subsidiaries, scheduled for 2012 and 2013 respectively. The sale of the Slovak subsidiary Dexia banka Slovensko is already being negotiated and will be completed in the first half of 2011.

Moreover, the continued implementation of the transformation plan abroad will result in 2011 in the planned closures of operations in Switzerland, Australia and Japan, and in a significant reduction of Dexia's platform in Eastern Europe.

This reduction in scope enables Dexia to refocus its activities on its core subsidiaries in Germany, North America and the United Kingdom.

In Germany, business going forward will be concentrated on loading assets originated in other core countries in view of issuing pfandbriefe-type covered bonds and the collection of deposits, which is currently showing great promise. In North America and the United Kingdom, the business will focus on project finance, especially with the significant increase expected in the North American market in 2011.

3 – Corporate governance and internal control

Report of the Chairman of the Board of Directors prepared in accordance with Article L.225-37 of the French Commercial Code

This report describes the principles and procedures in force during the 2010 fiscal year.

For the preparation of the present report, as a credit institution, Dexia Crédit Local refers to French Banking Regulatory Committee (CRB) Regulation 97-02, as modified by the decrees of 31 March 2005, 17 June 2005, 20 February and 2 July 2007, 11 September 2008, 14 January 2009, 5 May 2009, the two decrees of 29 October 2009, the decrees of 3 November 2009, 19 January 2010, 25 August 2010 and the decree of 13 December 2010, which defines the aims, principles and procedures of internal controls, and to the reference framework published by the French Financial Markets Authority (AMF).

The present report, established by the Chairman of the Board of Directors of Dexia Crédit Local, was prepared by the General Secretariat and the Internal Audit department, which gathered the appropriate information from all of the operating and support departments concerned, and notably the Risk Management department.

This report also takes account of the meetings between the Chairman of the Board of Directors and the Chairman of the Management Board, as well as the summaries of all Audit Committee meetings.

1. Preparation and organisation of the duties of the Board of Directors

Dexia Crédit Local applies best practices with regard to corporate governance, in accordance notably with those of its parent company (Dexia SA) and the AFEP-MEDEF corporate governance code. This is also true of the functioning of the Board of Directors and its specialised committees.

1.1. Board of Directors

The Board of Directors is responsible for establishing and ensuring the implementation of the operational guidelines of Dexia Crédit Local. It acts out of concern for the Company, including its shareholders, customers and employees. There are no potential conflicts of interest between the duties of the members of the Board of Directors with respect to Dexia Crédit Local and their personal interests or other duties.

As of February 2011, the Board of Directors was composed of 13 members, who are selected for their expertise and the contribution that they can make to the administration of the Company. Jean-Luc Dehaene serves as Chairman of the Board of Directors. He organises and directs the activities of the Board, oversees the proper functioning of the corporate governance bodies of Dexia Crédit Local and participates in the Company's dealings with institutional authorities. The function of Chief Executive Officer, which has been dissociated from the chairmanship, was entrusted to Alain Clot on 1 January 2011. He replaces Pascal Poupelle, who resigned and left office on 31 December 2010. The Chief Executive Officer has the broadest powers to act under all circumstances in the name of Dexia Crédit Local, which he represents in its dealings with third parties. The by-laws do not limit the powers of the Chief Executive Officer, who acts in accordance with all applicable laws and regulations, the Company's by-laws and the guidelines established by the Board of Directors.

The Board is composed of four members representing the Company's virtually exclusive shareholder, Dexia SA, and nine other Directors, seven of whom are independent members. The criteria used to ascertain independence are based on the recommendations contained in the AFEP-MEDEF corporate governance code. No non-voting members have been appointed.

At its meeting of 24 February 2011, the Board took into consideration the new legal provisions[1] for balanced representation of women and men among its members and committed to their implementation.

The members of the Board of Directors are required to comply with a charter defining their responsibilities; this charter was drawn up in accordance with the principles embodied in Dexia Crédit Local's code of ethics.

This charter, one of several documents available for viewing in the Company's registered office, reminds members in particular how important it is that they participate actively in the Board's work. The charter also reminds members of the Board of Directors that they play sensitive roles, and therefore are subject to the strictest requirements regarding the trading of Dexia shares. All transactions must be signalled in advance to the Chief Compliance Officer of Dexia Crédit Local, and receive his prior approval.

The Board of Directors meets at least once a quarter. In 2010 it met 10 times, with an 81% attendance rate.

The Chairman of the Board of Directors and the Chief Executive Officer provide the members of the Board of Directors with all information – strategic information in particular – that they require to correctly perform their duties.

(1) Act no. 2011-103 of 27 January 2011.

Prior to each meeting, the members of the Board of Directors are provided with an agenda and all reports and documents relating to items appearing on the agenda.

All appointments to the Board of Directors are made in compliance with the prevailing legislation and the terms of the Company's by-laws. At each Board meeting, the Chief Executive Officer presents the activity and the financial statements for the preceding period. The Board also reviews the work of the Audit Committee, internal controls and risk monitoring on an ongoing basis.

In 2010, in addition to the issues relating to the management of the Company and within its authority, the Board of Directors addressed the following specific matters: the liquidity situation; the decision of the European Commission and its consequences for Dexia Crédit Local; structured loans (including the findings of the so-called Bouvard Commission); intercompany asset sales; the disposal of Dexia banka Slovensko; and the compensation policy. At its meeting of 14 December 2010 the Board decided, under the delegation of authority granted by the Extraordinary Shareholders' Meeting on 26 November 2010, to increase the capital stock and to subsequently reduce it by EUR 639.78 million.

The Board convened two Shareholders' Meetings, of which the general conditions for the participation of shareholders are defined in Articles 23 to 36 of the by-laws of Dexia Crédit Local.

In addition, the Board of Directors is systematically informed of all reports and follow-up letters issued by the regulatory authorities, as well as the responses issued by the senior management of Dexia Crédit Local.

Lastly, the Board assessed the work it performed during the year.

All information regarding compensation and benefits paid to Directors and Officers of the Company are presented in the "Terms and compensation of Directors and Officers" section of the management report.

1.2. Specialised committees of the Board of Directors

The Board of Directors may create specialised committees, comprising between two and five members of the Board of Directors, including a Chairman. Committee meetings may be held in the absence of the Chairman of the Board of Directors. The Chairman of each specialised committee presents a report on its actions to the Board of Directors.

At its 9 September 2003 meeting, the Board of Dexia Crédit Local decided to create an Audit Committee in order to help it carry out its functions in controlling the management of Dexia Crédit Local.

The Audit Committee is comprised of three non-executive members[(1)] of the Board of Directors of Dexia Crédit Local. The members are selected for their expertise and the contribution that they can make to carrying out the tasks of the Audit Committee thanks to their experience in different professional fields.

The Board has based the criteria used to ascertain independence on the definition contained in the AFEP-MEDEF corporate governance code, and considered an independent director to be one who has no relationship whatsoever with Dexia Crédit Local, its group or its management, that could comprise the exercise of his or her freedom of judgement.

It should be noted that, in accordance with the recommendation of the AFEP-MEDEF, the Board of Directors may deem that whilst a director may meet all the criteria for independence, that person may not be categorised as independent, and vice-versa.

The Audit Committee meets at least twice yearly, and met four times in 2010. The meetings are devoted to the examination of the financial statements, monitoring of the liquidity position, measuring and oversight of risk, and to the various business reviews concerning internal audit and permanent control. In the light of the importance of the role of the Audit Committee in the control and monitoring of the preparation of the financial statements, its duties and means of intervention are described in detail in Section 2.4.2 of this report.

The Compensation Committee of the Board of Directors of Dexia SA is consulted about policies concerning the compensation and benefits provided to members of the Dexia Crédit Local Management Board, as well as about the employee stock ownership policy. During the course of the fiscal year just ended, the Board, which in 2009 decided (in accordance with the existing regulations) not to create a Compensation Committee for Dexia Crédit Local itself, but rather to continue to employ the services of the Dexia SA Compensation Committee, approved the compensation policy of the Dexia Group for Dexia Crédit Local and the conditions applicable to the employees of the Company.

2. Internal control

2.1. Organisation of the internal control function

2.1.1. ROLE OF THE INTERNAL CONTROL FUNCTION AND THE GENERAL ARCHITECTURE OF THE INTERNAL CONTROL PROCESS

a. Role of the internal control function

Like all credit institutions, the Dexia Crédit Local Group[(2)] is subject to the oversight of the French Prudential Control Authority (Autorité de contrôle prudentiel). The objectives and organisation of its internal control function are defined by the French Monetary and Financial Code and CRB Regulation 97-02 as amended (compliance with which is verified regularly by the Internal Audit department), and by the laws and regulations of the various countries in which Dexia Crédit Local conducts business.

The internal control mechanism provided for by CRB Regulation 97-02 as amended states that several control processes should be established to ensure notably:

- compliance of transactions and internal procedures

(1) Jean-Pierre Brunel, Chairman, Francine Swiggers and Patrick Bernasconi.
(2) For both the Dexia and the Dexia Crédit Local Groups, the notion of "Group" used in the present report includes the parent company and all consolidated companies.

- accurate and reliable accounting and financial information;
- security of information systems;
- systems for measurement and monitoring of risks and results;
- the control of all critical or important outsourced activities.

More specifically, the roles assigned to the internal control function in place within Dexia Crédit Local are designed to:

- verify the effectiveness of the risk management process.
  The internal control function is designed to provide the Management Board with a guarantee that the risks assumed by the Group are compatible with the policy established by the Board of Directors and the Management Board, and with the level of risk accepted;
- ensure that the accounting and financial information produced is accurate and relevant.
  The main purpose of the financial information is to present a true and fair view of the financial situation of Dexia Crédit Local in a consistent, exhaustive and transparent fashion. The internal control process is focused on achieving this objective;
- ensure compliance with all regulations and rules concerning ethics and compliance, both internal and external.
  The proper functioning of Dexia Crédit Local and of its subsidiaries requires the strict observance of all legislative and regulatory requirements in each of the countries in which the Group is present, and of all internal standards that have been established in addition to these obligations, particularly in matters concerning corporate governance, compliance and sustainable development. The internal control system should enable the Group to ensure compliance with these principles;
- improve the functioning of Dexia Crédit Local by ensuring an effective management of all available resources.
  The decisions taken by the Management Board for that purpose must be able to be put in practice quickly. The internal control procedures ensure the integrity of the flow of information, the compliance of the initiatives set in place and the verification of all results;
- ensure the effectiveness and operational efficiency of all of the business lines.
  The proper functioning of operational processes is of constant concern at all levels of the decision-making process. Many initiatives have been taken toward this goal, in constant collaboration between the business and support entities that also oversee the measurement of these initiatives through the use of indicators and the preparation of regular reports.

Dexia Crédit Local has established a body of procedures and controls as part of the organisation of the internal control system designed to improve the Bank's compliance with all regulations and capital adequacy policies, while ensuring that available resources are managed effectively. The internal control process provides a reasonable assurance that the objectives described above will be achieved at a desired level.

It should be mentioned that this system, like any control system, cannot be considered an absolute guarantee of the proper achievement of the Company's objectives.

b. Architecture of the internal control system

The general architecture of the internal control system is based on a series of basic principles, which are adapted to all of the business lines and support functions. Dexia Crédit Local's internal control system is based on activities incorporated into all operating, support, management, accounting and other processes, which the Group's management is responsible for monitoring continuously, with successive levels of control.

There is, moreover, a clear segregation of functions designed to maintain and ensure a clear distinction between those operators who initiate actions or transactions and those responsible for their validation, control and regulation.

As part of this strategy, the general architecture of Dexia Crédit Local's internal control system is based on an organisation divided into three levels:

- the first level of control is performed by each employee and his superiors, in accordance with responsibilities that have been expressly delegated to him, procedures applicable to the activity he performs, and with instructions provided to him;
- the second level of control is performed by specialised functions, independent from the operations controlled and which report directly to the Management Board. This second level may also be the responsibility of specialised committees composed of staff from operating, support and control functions, and chaired by a member of the Management Board, such as the Chief Compliance Officer or the Chief Risk Officer;
- the third level of control is performed by the Dexia Group internal audit function, which is responsible for continuously ensuring the efficient and effective performance of both of the levels of control defined above, within the parent company and all of its subsidiaries and branches.

c. Internal control functions

Based on the internal control architecture outlined in the preceding paragraph, Dexia Crédit Local has established functions that are segregated and adapted to the specific characteristics of each entity:

Permanent control, excluding compliance

This control function is responsible for verifying that the risk management system set in place is sound and effective, and guarantees the quality of all accounting and financial information and the quality of the Group's information systems.

The organisation of the permanent control function (excluding compliance) is discussed in detail in Section 2.1.7 below.

Compliance control

This control function ensures that all regulations and procedures are continuously applied and that the Company runs no risk of administrative, disciplinary, financial or reputational sanction due to their absence or non-application.

The organisation of the compliance control function is discussed in detail in Section 2.1.8 below.

Periodic control, or internal audit

This control function, carried out by the Internal Audit department of Dexia Crédit Local, in close cooperation with the internal audit function of the Dexia Group, is responsible for monitoring the performance and the effective application of controls in the parent company and all its subsidiaries and branches.

The organisation of the internal audit function is discussed in detail in Section 2.1.9 below.

Internal reference documents

To ensure that everyone participating in the internal control system has access to the same relevant information and instructions, the Dexia Crédit Local Group has compiled a standard reference system of instructions. These reference documents can be divided into four major categories:

- charters have been drafted for each business line or activity, detailing the objectives and reference policies that the Group has established and creating a conceptual framework for the organisation and running of the area concerned. Two examples are the Internal Audit and Compliance charters that have been set in place by the Dexia Group;
- codes provide a set of rules of conduct, or best practices to be observed by all employees in each activity, regardless of their direct and functional reporting lines. The code of ethics and compliance is provided to all employees at the Head Office and in the subsidiaries and branches, and is accessible to all staff via the compliance section of the Group intranet;
- rules of conduct – also called directives – are the first-level operating impact of these charters and codes. They spell out the practical implications of the quality standards that have been set, define limits and organise the system whereby authority is delegated. In this manner, the rules of conduct established by Dexia Group Risk Management specify how all counterparty credit limits are to be determined throughout the Dexia Crédit Local Group;
- procedures define – in compliance with all relevant charters, codes and directives – the organisation, tasks and monitoring necessary for the performance of a given activity. Each employee must have access within his or her department or area to a procedure manual covering his or her function. Similarly, service contracts allow two departments or two Dexia Group entities with a customer-supplier relationship to formalise this by establishing the level of service expected.

Moreover, the definition of processes performed in connection with ISO 9001 quality certification, although focused primarily on customer satisfaction, has led the Company to develop a comprehensive control plan for its activity.

2.1.2. CHIEF EXECUTIVE OFFICER AND MANAGEMENT BOARD

The Chief Executive Officer is the Chairman of the Management Board and has ultimate responsibility for guaranteeing that the Bank's internal controls function properly. He defines and coordinates the internal control policies of the Dexia Crédit Local Group. He also allocates resources and establishes deadlines for implementation of the actions that have been decided upon with respect to these policies. He verifies that the objectives that have been set are achieved, and that the internal control system meets all requirements. Lastly, he modifies these requirements whenever warranted by internal and external changes.

To assist him in this assignment, the Chief Executive Officer relies on the Management Board, whose members are continuously involved in the internal control system through their operating functions, their participation in various supervisory committees and the audit and other reports with which they are systematically provided. The Chief Auditor, Chief Compliance Officer and Chief Risk Officer all report directly to the Chief Executive Officer.

The Chief Executive Officer of Dexia Crédit Local is a member of the Management Board of Dexia SA and is responsible for the Public and Wholesale Banking business. He is responsible for the oversight of all of Dexia Crédit Local's domestic and international subsidiaries and branches. This Group structure improves coordination between Dexia SA and Dexia Crédit Local, and increases the authority of the Chief Executive Officer over all the entities that report to Dexia Crédit Local, which contributes to greater control over the entire scope of Dexia Crédit Local and to an optimised internal control function.

2.1.3. OPERATING DEPARTMENTS

The heads of the operating departments are responsible for the adaptation and smooth running of internal control procedures within their areas of activity, analysing the risk on each transaction they initiate, and for verifying that such transactions are in compliance with the internal control procedures in their departments. In the event that a change in the internal or external conditions under which they work should affect internal control, they must propose or implement – depending upon their level of responsibility – any changes required in order to maintain risk management at the desired level.

2.1.4. RISK MANAGEMENT DEPARTMENT

The Risk Management department is responsible for the control and management of risk, in accordance with the guidelines established by the Management Board.

In 2010, the reorganisation of the risk management function was effectively implemented, using an approach that reflects the Group's new organisation. The function has been reorganised into cross-divisional business lines: Public and Wholesale Banking credit risk, financial market risks (including credit and market risks), and Retail and Commercial Banking credit risks, crossed with a geographical organisation by legal entity. Specialised expert centres have been established at the Group level for the different types of counterparties (project, corporate and real estate, banks, ABS, international public sector, country).

The Dexia Crédit Local Chief Risk Officer (CRO) is a member of the Management Board. Following the reorganisation of the risk management function, the CRO of Dexia Crédit Local reports directly to the CRO of Dexia SA, and has a strong functional link to the CEO of Dexia Crédit Local. The Chief Risk Officer has no reporting relationship with the other units, and carries out his assignments free of any intervention by the operating functions.

All of the CROs in Dexia Crédit Local's foreign and French subsidiaries and branches now report directly to the Chief Risk Officer of Dexia Crédit Local, who also oversees the credit committees in all of the Group's largest locations.

The Risk Management department is responsible for all of the risks generated by the banking activity, as defined by CRB Regulation 97-02 as modified, namely credit, market, liquidity and operational risks.

The department adheres strictly to the provisions laid down by the Dexia Group concerning risk measurement methods, exposure limits and reporting procedures, all of which are defined by Group Risk Management.

2.1.5. COMMITTEES

a. Management of credit risk

The following intercompany committees are organised by Dexia SA:

- the Risk Policy Committee (quarterly) approves the rules of allocation of credit risk, which are then detailed in the credit risk policies;
- the Risk Executive Committee (weekly) is responsible for defining risk management strategy and the organisation of the function;
- the Management Credit Committee makes decisions on proposals involving very large amounts or high-risk credits.

The Dexia Crédit Local Chief Risk Officer is a member of the Risk Executive Committee.

Decisions regarding commitments and the monitoring of these commitments are carried out through a series of committees:

- the weekly Dexia Crédit Local Credit Committee makes decisions regarding proposed commitments involving Dexia Crédit Local and its international network;
- for the TFM activity, since December 2010 a single committee is in charge of all new commitments and the allocation and monitoring of limits. This committee is organised at the Dexia SA level for all transactions delegated by the Management Credit Committee.

Each proposal submitted to a committee includes an independent analysis performed by the Risk Management department of either Dexia Crédit Local or the Group.

The following committees meet quarterly:

- the PWB and TFM Special Mention and Watchlist Committees monitor "sensitive" assets that have been placed under active surveillance;
- the PWB and TFM Default Committees qualify and monitor all counterparties in default in accordance with Basel II, employing the prevailing rules applied by Dexia;
- the Impairment Committees approve quarterly allocations of reserves and monitor the cost of the risk;
- rating Committees ensure that the internal credit rating system is applied correctly and that the credit rating process is adequate.

At the end of 2010, the Credit Line Committees were merged with the TFM Credit Committee, giving rise to a single committee in charge of all new commitments and the allocation and monitoring of limits.

PWB Special Mention and Watchlist and Default Committees and Impairment Committees are organised in the various subsidiaries and branches (the local committees), in the Head Office of Dexia Crédit Local, and in the Head Office of the Dexia Group for all credit authorities that have not been delegated. Rating Committees are organised at the Group level. The Dexia Crédit Local Risk Management department chairs all of the Dexia Crédit Local committees. It systematically participates in all Dexia Group committees and presents proposals concerning Dexia Crédit Local and its various branches and subsidiaries. The department approves all credit proposals to be housed within Dexia Crédit Local and its various branches and subsidiaries, and has veto power over these proposals.

The Dexia Crédit Local Risk Management department participates systematically in all TFM committees, approves all proposals concerning Dexia Crédit Local and its various branches and subsidiaries, and has veto power over these proposals.

Certain powers are delegated to the commercial network in France. The Italian and Spanish subsidiaries have been delegated certain powers, but only in respect of their public sector clientele.

b. Management of market risk

The following committees are organised:

- the Dexia and Dexia Crédit Local ALM Committees (ALCO, monthly) make decisions in accordance with their individual authorities and limits, and establish strategies for interest rate, currency and liquidity risks for all Group entities and for Dexia Crédit Local and its subsidiaries and branches for whom this activity is significant;
- the Market Risk and Guidelines Committee (MRGC, monthly) establishes risk policies for financial markets, monitors compliance with the market risk limits set at the Dexia Group or Dexia Crédit Local level, analyses operations and defines operational guidelines.
- The role of these committees is explained in greater detail in the paragraphs of the management report on market risks and balance sheet management (respectively Section 2.3 Balance Sheet Management [for ALCO] and Section 2.2 Market Risk [for MRGC]).

c. Diversification of activities

The following committees are organised:

- the New Products Committee (monthly), which is chaired by the Chief Risk Officer, verifies prior to the launch of any new activities or products that the corresponding risks have been correctly analysed, measured and managed, and that adequate risk management systems have been put in place. Each subsidiary also has its own New Products Committee;
- the Commercial Risk Evaluation Committee (CERC, quarterly) monitors front office activity and analyses commercial risks in connection with sales of structured loans and transactions. It formulates the marketing strategy for these operations on this basis.

d. Major IT, regulatory and organisational projects

The following committees are organised:

- project steering committees monitor the progress of projects, provide the corresponding resource planning, make all final decisions and organise reporting to the Management Board of the Dexia Crédit Local Group;
- the IT Security Committee, whose main tasks are described in Section 2.3.4.c - Operational risks - Information systems security.

The tasks performed by most of these committees are reviewed every quarter by the Management Board.

2.1.6. CONTROL OF SUBSIDIARIES AND BRANCHES

The Dexia Crédit Local Group employs several tools to monitor and verify the operations of its subsidiaries and branches, depending upon the degree of their autonomy from the parent company. French subsidiaries that have been created to house a specific activity (special-purpose entities, or *filiales outils*) depend on the services provided by Head Office departments, and are included within the scope of the latter's internal control system. Control is therefore quite well integrated. The leasing companies and Dexia Municipal Agency are examples of these SPEs.

Other French subsidiaries, such as Dexia Sofaxis and Dexia CLF Banque, have a far more extensive scope of activity and operate using their own staff for all permanent control assignments. These subsidiaries have, consequently, established their own internal control systems within their organisations. These systems are modelled on the best practices developed at the Head Office, while taking into account the specific characteristics of these subsidiaries' own activities.

Foreign branches and subsidiaries have their own staff and engage in a range of activities, as appropriate to their local market. Depending on their size, they rely to a greater or lesser extent on the services provided by the Head Office departments. Like the French subsidiaries, foreign subsidiaries and branches have set up internal control systems that are adapted to their size, their activities and the specificities of the local market.

Control of the international entities is coordinated by the CEO of Dexia Crédit Local in his capacity of head of the Public and Wholesale Banking business. He is assisted in this task by the Public and Wholesale Banking International department, the head of which is a member of the Management Board of Dexia Crédit Local. This department, which is organised into geographical regions, has correspondents for each of the subsidiaries and branches who are responsible for the day-to-day monitoring of these entities, planning the meetings of the various corporate governance bodies, and coordination with the appropriate Head Office departments.

The risk management and permanent control, compliance and internal audit functions are all overseen directly by the appropriate departments of the Head Office of Dexia Crédit Local, with a specific organisation for each function. Under the new organisation of the risk management and permanent control function set in place at the end of 2009, the Chief Risk Officer of each subsidiary and branch reports directly to the CRO of Dexia Crédit Local.

For all entities, control is based on a system of delegation of authority and regular reviews provided to the appropriate departments at Head Office (Risk, Finance, Legal, Compliance and Audit) and the Management Board of Dexia Crédit Local, and the participation of the members of the Management Board in the various administrative and decision-making bodies within each subsidiary.

2.1.7. PERMANENT CONTROL, EXCLUDING COMPLIANCE

The Secretary General of Dexia Crédit Local, a member of the Management Board, has oversight over permanent controls other than compliance.[(1)]

Consolidated oversight of the permanent control function is based on the use of decentralised risk measurement and monitoring teams within the Head Office departments, subsidiaries and branches, and on the use of permanent control committees to perform monitoring on a consolidated basis.

Second-level controls are performed within the General Secretariat by the unit responsible for the oversight and reporting of these controls. This unit works in synergy with the Operational Risk Management and IT Security department to guarantee cohesion amongst the various levels of control.

The architecture of this control is organised in accordance with the first two levels of the architecture presented in Section 2.1.1.b of the present report.

Note that in the context of expansion and development of this function to the entire Dexia Group, this unit reports directly to the Group Permanent Control Manager.

Permanent controls are based on a control plan whose results are reported to the Management Board of Dexia Crédit Local every quarter. These controls cover the primary processes involved in the Bank's operations, and were selected in collaboration with the operating departments. The aptness of this selection is reviewed annually in a process that involves the challenging of the control plan. They incorporate both the business process mappings prepared in connection with the ISO 9001 Quality project and the mapping of risks and controls implemented for Operational Risk Management purposes. Permanent Control Managers have been appointed within the executory functions; they coordinate all activities related to the scope for which they are responsible.

When setting up their permanent control systems, the subsidiaries and branches have taken into account all applicable laws and regulations in the countries in which they operate as well their own organisation and size.

The execution of the permanent control plan is monitored by the General Secretariat, which ensures the consistency and the independence of the controls by establishing functional reporting relationships with the decentralised units within the Head Office departments, subsidiaries and branches. The Permanent Control department prepares the general management report. The department may request justified explanations of any malfunctions observed.

2.1.8. COMPLIANCE

Compliance monitoring is an integral part of the internal control systems of credit institutions and investment firms. Dexia Crédit Local's Compliance department ensures the consistency and effectiveness of non-compliance risk controls.

Compliance is organised as a single function, from the Holding Company of the Dexia Group all the way down to the foreign subsidiaries of Dexia Crédit Local. Compliance is an independent function, and reports functionally to the Secretary General of Dexia.

At Dexia Crédit Local, the Chief Compliance Officer reports directly to the Secretary General, who has been given responsibility for compliance dealings with the Prudential Control Authority and has a functional reporting relationship with the Chief Compliance Officer of the Dexia Group. The Chief Compliance Officer also serves as the French Ministry of Finance's anti-money laundering (Tracfin) correspondent, as part of the bank's obligations in the fight against money laundering and the financing of terrorism. The Chief

(1) As part of the Group's reorganisation and development of synergies, effective 1 February 2011 the Operational Risk Manager of Dexia Crédit Local is responsible for Dexia Crédit Local's permanent control function (excluding compliance).

Compliance Officer is formally accredited by the French Financial Markets Authority (AMF) as Investment Services Control Manager (RCSI) for both Dexia Crédit Local and Dexia CLF Banque, both of which provide investment services.

Each Dexia Crédit Local Group entity has its own Compliance Officer. Their role is to ensure that the Group's general integrity policy and the compliance charter are respected in each of the entities, to update the rules in response to changes in the local activities or environment (legal or economic) and to inform managers and employees about and sensitise them to all local regulatory provisions and the compliance standards that have been defined for the entire Dexia Group. They report to the Chief Compliance Officer of Dexia Crédit Local on either a functional (subsidiaries) or a direct (branches) basis.

The Compliance department contributes to the Group's strict observation of all legal and regulatory obligations. Similarly, it acts in accordance with the guidelines established at the Dexia Group level, consisting notably of charters, codes, policy notes and procedures. The main changes made to the rules of compliance concerned the procedures governing the prevention of market manipulation, notably as regards Dexia's financial instruments; the procedure applicable to the fight against money laundering and terrorist financing; and the procedure regarding the monitoring of the processing of personal data.

In 2010, in accordance with Dexia Group policy, the Compliance action plan was successfully completed. The completion of the mapping of compliance risks enabled plans of actions to be undertaken in 2011 to be established for all Dexia Crédit Local Group entities, based on the assessment of the compliance risks identified. These action plans, as well as the description of risks on which they were based, were all approved by the executive bodies of all Dexia Crédit Local Group entities.

The training sessions on compliance issues, most of which began in 2009, continued in 2010 with a new section on professional certification. Specific sessions were also organised for persons involved in the financial markets.

With regard specifically to the fight against money laundering and the financing of terrorism, the Dexia Group complies with all European and French regulations as well as all local laws in each of its international locations. In addition to these basic conditions, the Group has also implemented even stricter standardised criteria in terms of the acceptability and reputations of its customers. The Group strives to secure relationships only with counterparties with clearly established identities and who share the Group's own criteria for integrity and responsibility. The procedure applicable to the prevention of money laundering and the fight against the financing of terrorism was updated following the transposition into French law of the provisions of the Third Money Laundering Directive. The procedure is accessible to all employees and has also been implemented in all of Dexia Crédit Local's European branches. As part of the anti-money laundering procedures, the Compliance department conducts periodic checks on the effective availability of client identification documentation, by verifying approval requests submitted to the Credit Committees or other bodies that have been granted delegations of powers. USA Patriot Act certification is available on the Dexia website for all appropriate Group entities.

The Compliance department also attaches considerable importance to the inclusion of all European entities concerned by the Markets in Financial Instruments Directive (MiFID) in the MiFID monitoring report.

The Compliance department performs a regulatory watch by continuously updating all of the applicable laws and regulations. In line with the definition of its scope of intervention, including the confidentiality and protection of personal data, the Compliance department has successfully updated all disclosures to the French Data Protection Agency (CNIL) concerning the known processing of personal data.

The Compliance department participates in the definition of new rules governing the marketing of structured products, and is overseeing the implementation of a system for monitoring them. The Chief Compliance Officer chairs the Ethics and Evaluation of Commercial Risks Committee (CEERC) for Dexia Crédit Local and the Committee of Evaluation and Prevention of Commercial Risks (CEPCoR) for the Dexia Group, and advises on the marketing of new products and significant changes made to existing products.

2.1.9. PERIODIC CONTROL

Dexia Crédit Local's periodic control function includes both internal audit and bank inspection[1].

As at 31 December 2010, 36 auditors and inspectors worked in the internal audit and bank inspection areas (three additional posts were provided for but remained unfilled). It should be noted that two of the three open positions were filled at the beginning of January 2011.

a. Organisation and governance of internal audit

Role of the internal audit function

Internal audit is an independent and objective function that provides assurance to management as to the degree of control over its operations, offers advice for improvement and contributes to the creation of added value.

To achieve this, the internal audit function familiarises itself with all the goals of the organisation, analysing the risks associated with its objectives and periodically evaluating the adequacy of the controls in place to manage these risks. Internal audit then submits an assessment of all residual risks to management so that the latter can validate their fit with the overall risk profile desired for the Dexia Crédit Local Group, and suggests to management any needed actions to strengthen the effectiveness of controls.

The internal audit function also assists the Boards of Directors of all Group entities in their supervisory role through Audit Committees.

In accordance with international standards, a Group-wide internal audit charter lays out the fundamental principles governing the internal audit function within the Dexia Group, by describing its aims, role, responsibilities and operating procedures.

Following the reorganisation of the Dexia Group, the audit charter was modified to reflect the changes made to the internal audit function. The audit charter was presented to and approved by the Management Board of Dexia Crédit Local on 27 July 2010 and the Audit Committee on 4 August 2010.

So that each Dexia Group employee can appreciate the importance of the internal audit function's role within the internal control and management support systems of the Dexia Group, the audit charter will be published on the Dexia website (www.dexia.com) and the Dexia Crédit Local intranet during the first half of 2011.

(1) Investigation & Branch Audit

Guidelines

The strategy, level of requirement and operating procedures of the Dexia Crédit Local Group internal audit function are defined by the Management Boards of both Dexia SA and Dexia Crédit Local, within a framework approved by the Boards of Directors of both Dexia SA and Dexia Crédit Local, via their respective Audit Committees. This framework takes account of the requirements, local laws and regulations and instructions issued by supervisory authorities.

In accordance with all professional standards and ethics, the following general principles underlie the performance of the tasks entrusted to the internal audit function and are mandatory for all auditors:

- objectivity: objectivity of audits is guaranteed by several factors: the assignment of auditors; the objectification of the audit findings through a documented and systematic approach; the oversight of all assignments; and the taking into account of the views of the audited parties through open discussions;
- independence: independence is ensured by having each Internal Audit department report directly to the highest level of authority within the entity for which it is responsible;
- impartiality: the internal audit function is not involved in the operational organisation of Group entities. The Management Boards of the Group may, however, turn to the internal audit function for an opinion, advice or assistance. This type of intervention by the internal audit function must remain infrequent, especially as regards the development and implementation of internal control procedures;
- access to information: as part of its assignment, the internal audit function has access to all information, documents, premises, systems and persons within the entity for which it is responsible, including all management reports and the minutes of and information packages prepared for any advisory and decision-making bodies. As part of their assignment, the Internal Audit departments have access to all information in all Group entities;
- confidentiality: each auditor is bound by a strict obligation to maintain confidentiality and discretion. They must take special care to respect all obligations of professional secrecy contained in regulations;
- competence: each auditor must demonstrate the utmost professionalism and receive ongoing training that ensures full understanding of the rapid changes taking place in auditing techniques; banking, financial and information technology; and fraud techniques. Training needs are assessed during annual reviews;
- Group-wide methodology: all auditors use the same methodology and document their work in an identical manner to ensure the consistency of their interventions and the traceability of internal audit investigations in the Group, and to foster the identification and management of risk on a consolidated basis.

Dexia Crédit Local Group Management Boards provide the internal audit function with the resources it needs to successfully carry out its assignment, in order to be able to continuously adapt to the Group's changing structures and environment.

Area of intervention

All of the Dexia Crédit Local Group's businesses, processes, systems and entities fall within the scope of the internal audit function, with no reservations or exceptions. The scope of intervention includes all processes within the Group, including operational, support, managerial, and corporate governance, risk management and control-related processes.

It does not, in principle, include the operations of companies in which the Dexia Crédit Local Group holds only a non-controlling interest, except, for example, in cases when the intervention of the internal control function has been requested by supervisory authorities.

Organisation of the function

The first half of 2010 was marked by the continuing rollout of the transformation plan and the effective implementation of the changes incorporated in the transformation plan for the internal audit function, notably as concerns the organisation of the function and changes to its methodology.

1 - Principes

Internal audit is an integrated function within the Dexia Group. The function includes both the Dexia SA Internal Audit department and the Internal Audit departments of Dexia Crédit Local and its subsidiaries and branches.

The Internal Audit department is headed by the Chief Auditor, who in turn reports directly to both the Chief Executive Officer of Dexia Crédit Local and the Chief Auditor of Dexia SA.

The Internal Audit departments of Dexia Crédit Local's New York and Tokyo branches report directly to the Chief Auditor of Dexia Crédit Local.

The heads of the Internal Audit departments of Dexia Crédit Local's subsidiaries (Italy, Germany, etc.) report directly to either the Chairman of the local executive body, the Board of Directors or the Supervisory Board (depending on local regulations), and report to the Chief Auditor of Dexia Crédit Local on a functional basis. The functional relationship takes the form notably of an assent provided on all appointments, objectives and annual reviews.

Dexia banka Slovensko, Dexia Crédit Local's Slovak subsidiary, which engages in generalist banking activities, has both central and regional audit units, which are notably responsible for supervision of the regional branches and agencies.

Each Internal Audit department is responsible for fulfilling its duty to the Chairman of the Management Board, to the extent permitted by local laws, and to the Board of Directors of the entity or subsidiary, assisted if needed by an Audit Committee.

Each Chief Auditor attends the meetings of the Management Board of the entity for which he is responsible (i) when that Board so requests, (ii) when submitting an audit report or (iii) at his own request, when he wishes to raise one particular point falling within the scope of his attributions and responsibilities.

Each Chief Auditor has direct access to the Chairman of the Board of Directors, the members of the Audit Committee and the Statutory Auditors of the entity for which he is responsible.

2 - Organisation of an internal audit function

An internal audit function is created within a subsidiary when Dexia Crédit Local exercises control over that subsidiary or, in the absence of such control, at the specific request of the supervisory authorities. If the creation of an internal audit function is not considered relevant, Dexia Crédit Local provides the local internal audit function and, when appropriate, a service level agreement (SLA) is signed between Dexia Crédit Local and the subsidiary in question. This is notably the case of the French subsidiaries (Dexia Municipal Agency, Dexia Sofaxis and the leasing subsidiaries).

3- Role of the Internal Audit department

The Internal Audit department is responsible for ensuring that the organisational set-up of the internal audit function within the entire Dexia Crédit Local Group is adequate and functions properly.

The Internal Audit department is responsible for:

- the audit strategy and its proper implementation in all Dexia Crédit Local Group Internal Audit departments;
- definition and application of a common methodology for risk analysis;
- definition and application of a common methodology for auditing;
- definition and application of a common methodology for monitoring recommendations;
- optimal allocation of expertise within the function;
- determination of the level of training required of all Group auditors;
- coordination and evaluation of training programmes;
- dissemination of information needed within the function;
- implementation of quality controls;
- management of central projects and distribution of audit tools;
- allocation and monitoring of the operating budget for each local Internal Audit department.

4 - Governance

The organisational structure of the internal audit function is aligned with the organisation by business line and by support function of the Dexia Group. Each "segment" thus defined is managed by a segment manager (Group Head of Audit - GHA) who is responsible, in liaison with the relevant operational managers, for identifying and monitoring all risks relating to the segment for whose supervision he is responsible and for overseeing all of the relevant audit assignments carried out within his segment.

The segments have been defined in the following manner, in line with the structure of business lines and support processes used by Dexia:

- Public and Wholesale Banking (PWB);
- Retail and Commercial Banking (RCB), Asset Management & Investor Services (AMS);
- Private Banking;
- Financial Markets Activities, Balance Sheet Management, Risk Management and Finance;
- Operations, information systems and other support functions.

This organisation, by Group-wide horizontal segment, is superimposed on the organisation by entity, so as to maintain a consolidated view of risk.

The Chief Auditor of Dexia Crédit Local ensures that all risks are covered appropriately within the entire scope of Dexia Crédit Local, including the Head Office, the French commercial network, and all subsidiaries, branches and representative offices in France and abroad. He also acts as local interface with management and the local regulator, and is involved in the oversight of the internal audit function within the Dexia Group.

The finalisation of the implementation of the transformation plan within the internal audit function has engendered the following changes in comparison with fiscal 2009:

- the consolidation of the function of Group Head of Audit for the Public and Wholesale Banking segment with that of Chief Auditor of Dexia Crédit Local; of the function of Group Head of Audit for the Retail and Commercial Banking segment with that of Chief Auditor of Dexia Bank Belgium; and of the function of Group Head of Audit for the Private Banking segment with that of Chief Auditor of Dexia Banque Internationale à Luxembourg;
- the human resources of the internal audit function have been reorganised into shared services centres (IT, Belgium, France, Luxembourg and Turkey) whose scope of intervention is not limited to the boundaries of their respective countries;
- a single internal audit plan for the Group was established, and monitoring of the audits is carried out horizontally by segment for the entire Group.

As internal audit is an integrated function, the management and oversight of the function is carried out by two structures, the Audit Management Committee (AMC) and the Internal Audit Executive Committee (IAEC), as well as a support unit.

The Audit Management Committee is chaired by the Chief Auditor of Dexia SA and includes the Chief Auditors of the main entities (Dexia Crédit Local, Dexia Bank Belgium and Dexia Banque Internationale à Luxembourg), the Chief Auditor of DenizBank and the Group Head of Audit for the information systems segment and the other support functions. The AMC oversees the audit strategy, as well as all financial and human resources.

The Internal Audit Executive Committee is composed of all AMC members, plus the GHAs and the head of the Auditing Process Management and Organisation unit (APMO), which leads the committee. The IAEC defines the audit universe and updates it regularly; validates the risk mapping prepared by each of the segment heads; prepares the Group's comprehensive audit plan; sees that all audit assignments are optimally planned; suggests changes needed to the function's resources, procedures and tools; defines the training policy for the audit staff; analyses the results of performance monitoring of the internal audit function; and validates all reports prepared for internal and external use.

The role of the Audit Process Management and Organisation unit (APMO) is to support the internal audit function. The unit's role is to define and update audit techniques and processes; prepare and/or coordinate the various progress reports by the function (both internal and external); implement and maintain the tools required for the proper functioning of the internal audit function; coordinate the work with the operational risk and compliance staff; produce the performance indicators required for the audit assignments; and organise training programmes for the auditors and quality reviews to ensure the proper application of all audit techniques and processes. The APMO unit organises and also participates in the Audit Committee and, to enhance controls over all subsidiaries and branches, monitors the supervisory bodies of the entities and their subsidiaries/branch offices and all assignments carried out by local regulators. Finally, the APMO unit is responsible for managing the audit plan, i.e. it plans all the assignments listed in the audit plan as well as any not originally included in the audit plan.

Audit duties

The work performed by the internal audit function is based on proven methods modelled on international best audit practices. The audit assignments and risk analyses in all Dexia entities are based on one common set of methodologies. They are adjusted regularly to reflect changes in standards, feedback from the field and changes in structures.

In 2010, the methodology for risk and the establishment of the audit plan, which was reviewed in 2009, was improved and simplified (especially insofar as concerns the subsidiaries), and the main steps were computerised.

The methodology first identifies the objectives of the business lines and support processes, and then quantifies the impact of all major risks that could interfere with the achievement of these objectives. Then, audits are targeted at those subjects most critical in terms of impact and likelihood of occurrence. The methods employed structure the internal audit function as a support for corporate governance over risk control.

The overall approach to the risk universe, the common audit methodology, the performance of "horizontal" – or joint and local – assignments depending on needs, and the procedures for reporting and monitoring at the level of the head-of-group structure all contribute to assessing whether Dexia's internal control system is well integrated and effective and to requesting any improvements that may be needed.

1 - Analysis of risk and planning of audit assignments and resources

The Dexia Crédit Local internal audit function uses a single, common audit plan for the entire Group that is defined by the IAEC and approved first by the Management Board and then by the Audit Committee and/or the Board of Directors.

The plan is put together using an annual risk analysis conducted independently by the internal audit function, in accordance with the best practices presented by the Internal Audit Institute. The main steps taken by the internal audit function in creating its audit plan are:

- identification of potential critical risks that would interfere with the business lines' and support processes' achievement of their objectives;
- assessment of the degree of vulnerability to which Dexia Crédit Local is exposed in connection with these critical risks, by quantifying their impact and likelihood of occurrence. The results of this assessment can identify the most significant risks;
- identification of the audit units that are either the source of these risks or responsible for anticipating them, leading to a risk score per audit unit, from which is derived a score of the frequency with which the unit must be reviewed by the internal audit function;
- list of audits performed over the past three years on the audit units (back testing);
- selection of audit assignments of high-risk audit units, taking account of all audits already performed and any regulatory requirements with regard to frequency.

In order to be most effective, the audit plan targets those audit units most at risk, i.e. those which – across all the lines of business and all the support processes – present the greatest number of risks and/or key controls to the achievement of the Group's objectives. Those audit units that do not pose major risks are subject to a simplified approach, which meets the regulatory requirements for coverage of the audit universe.

This multi-year plan allows the internal audit function to identify any potential quantitative or qualitative need for human resources, as well as any training needs.

The audit plan distinguishes between several types of audits:

- Group-wide audits, which are carried out simultaneously on the same subject in several entities and focus mainly on processes with a relatively high degree of integration;
- joint audits, which are carried out within an entity by the local audit staff (if any) along with one or more auditors from a shared services centre;
- local audits, involving only one entity.

2 - Performance of audit assignments

All Dexia Group entities apply the same method to perform audits. The various steps for carrying out an internal audit (preparation, performance, audit report, monitoring of recommendations, etc.) and the formats of the deliverables expected at each step are described in a procedure that also sets out the roles, responsibilities and processes to be followed for the review and approval of the audit and the archiving of all documents.

3 - Monitoring

Twice a year, the Chief Auditor of Dexia Crédit Local presents the Audit Committee with a report on the activities of the internal audit function. The report includes a summary of key findings identified during the audits, an annotated progress report on the audit plans (especially when there has been a significant deviation from the schedule), and a qualitative and quantitative assessment of the adequacy of the resources provided.

To ensure the effectiveness of the recommendation monitoring process, a six-monthly follow-up of all action plans associated with the recommendations is presented to the Management Boards of the various Group entities and any delays in the implementation of these action plans are addressed.

A new recommendation tracking tool (OSCAR) was released in late January 2010. OSCAR facilitates an ongoing exchange of information between auditors and auditees on the progress made with the action plans developed in response to audit recommendations. Moreover, the recommendations of the reports issued by the French Prudential Control Authority have also been introduced into the OSCAR tool.

Training

In addition to the training sessions organised by the Human Resources department, a specific training plan has been established for the internal audit function. The plan includes several different training courses, depending on the role and seniority of the auditor. Furthermore, in terms of human risk management, the organisation of the internal audit function into shared services centres will ensure better coverage of the Group's various activities while overcoming the risk of a lack of resources (both qualitative and quantitative) and guaranteeing the Group's ability to react quickly in the event of an emergency.

Dealings with supervisory authorities and the Statutory Auditors

The Internal Audit departments of all Dexia Crédit Local Group subsidiaries and branches inform the Dexia Crédit Local Internal Audit department of all meetings planned on the functioning of the internal audit functions; all audits conducted by the regulators in their entities (throughout the entire audit); and all matters deemed important raised during their regular meetings with the Statutory Auditors and the regulators, by submitting the summaries of those meetings. The Internal Audit department of Dexia Crédit Local may attend such meetings whenever it so wishes.

The Internal Audit department of Dexia Crédit Local acts in the same fashion with respect to the Chief Auditor of Dexia SA. The Internal Audit department of Dexia SA may attend any meetings with the Statutory Auditors and regulators whenever it so wishes.

Projects for 2011

In 2011, the correspondents will allocate an even greater portion of their time than they did in 2010 to monitoring the risks in their area of responsibility (including the tracking of action plans established in response to the recommendations made by the internal audit function, the regulators and the Statutory Auditors). This demonstrates the clear desire of the internal audit function to accord even more importance to the monitoring of all actions agreed to with the auditees at the end of audits that have already been carried out and intended to remedy risks that have already been identified, in addition to their traditional role of carrying out new audits to identify new risks. This process should allow a formal alarm to be triggered, when it is deemed necessary, to alert management to areas of weakness that appear both material and persistent.

Several methodological projects are planned for 2011, including:

- review of the audit universe. The new review will incorporate the impact of the transformation plan and all associated organisational changes and reassignments of staff members. This universe update will impact the recommendation tracking tool;
- implementation of a more robust software application for reporting on progress made on audit recommendation action plans, which will be placed at the disposal of both auditors and auditees. This tool will allow the internal audit function and the operational functions to share in the reporting process. The new application is expected to be released in late 2011;
- redesign of the internal audit intranet site, with more detailed rules for access administration. Initially, the site will give members of the internal audit function access to all necessary information on audit methodology and make it possible to combine in one place all of the audit reports and key documents from each of the steps followed in performing an audit. Subsequently, the site will allow the flows of each audit to be automated, and thus provide for the automatic calculation of the performance metrics for the internal audit function;
- self-evaluation of the internal auditing function, in accordance with the "Quality Assurance Review" standards issued by the Institute of Internal Auditors and as recommended by international standards, for the purpose of preparing for an external validation by an independent body.

b. Activity of the internal audit function in 2010

A substantial portion of the Dexia Group audit plan took the form of "Group-wide audits", i.e. assignments carried out simultaneously at Dexia SA and the Group's operating entities: Dexia Crédit Local, Dexia Bank Belgium, Dexia Banque Internationale à Luxembourg and DenizBank, as well as certain of their subsidiaries and branches, depending on the nature of the audit. In 2010, these audits mainly addressed risk management; the Finance, Balance Sheet Management, Operations and Information Systems functions; and Financial Markets Activities. Other support functions are also audited regularly.

The audits undertaken in 2010 resulted in the establishment of action plans to correct weaknesses identified in the internal control system. Each action plan was approved by the Management Board of the entity concerned and - depending on its materiality - reported to the Management Board of Dexia Crédit Local, and is being regularly monitored, to ensure that all of the recommendations contained therein are effectively implemented.

In terms of completing the audit plan (number of assignments), the completion rate for local and joint missions during 2010 is considered good, and is slightly higher than the rate for Group-wide missions.

Dealings with supervisory authorities and the Statutory Auditors

2010 saw stricter follow-up of contact with regulators. Contact with the Dexia Crédit Local's various regulators – whether in the form of bank inspections or meetings – is tending to increase, and commanded an increasing portion of the time of the Group's internal audit staff in 2010. During these bank inspections, the internal audit function is responsible for monitoring the progress of the inspection while ensuring that all items requested are sent to the bank inspectors in the correct manner; at the end of the audit, coordinating the formulation of action plans in response to the regulators' recommendations (in application of the principle of enhancing the role of the internal audit function in these matters); and then monitoring these action plans in the same way as the action plans that address the internal audit function's own recommendations.

At the Dexia Crédit Local Group level, the investigations being conducted mainly concerned the Dexia FP portfolio, the project finance business and the internal rating system for US municipal bonds.

c. Creation of an Investigation & Branch Audit unit

One of the primary engines of transformation of the internal audit function was the creation in 2010 of an Investigation and Branch Audit entity at Dexia SA responsible for defining the Group-wide methods to be used and conducting Group-wide investigations (i.e. ones involving several Dexia Group entities), as well as the periodic control of the branch networks.

The Investigation unit makes an independent and objective contribution to the management of fraud risk. It participates in efforts to raise awareness of and prevent fraud. It takes steps to detect and deal with cases of fraud. Lastly, it proposes and monitors corrective actions.

The Branch Audit unit provides independent and objective assurance to Dexia regarding the extent to which risks on operations in the physical distribution channels are effectively managed. The unit takes a systematic and methodical approach to assessing the risk management, control and governance processes in these distribution channels.

Organisation and governance

The Investigation & Branch Audit unit is headed by the Group Head of Investigation, who reports to the Chief Auditor of Dexia SA. It is composed of:

- an Investigation & Branch Audit unit that reports directly and on a functional basis to the Chief Auditor of Dexia SA;
- "local" Investigation & Branch Audit units that report directly to the Chief Auditors of the local entities and on a functional basis to the head of the Dexia SA Investigation & Branch Audit unit.

A structure called the Investigations and Branch Audit Executive Committee (IBAEC) coordinates the management and oversight of the unit. The IBAEC uses an analysis of fraud risk to prepare a schedule of joint activities; sees that all Group-wide audits are optimally planned; suggests changes needed to the function's resources, procedures and tools; defines the training policy for the audit staff; analyses the results of the Group-wide audits and validates the business reviews prepared by the internal audit function. The committee also decides on the temporary secondment of bank inspectors between entities.

An Investigation & Branch Audit charter lays out the basic principles that govern the function by describing the objectives, roles, authorities, duties and responsibilities, operating procedures and basic rules governing its activities. This document helps set the objectives of the unit and describes the relationships and conditions for action of the Investigation & Branch Audit of Dexia SA vis-à-vis other Dexia Group entities, factoring in whether or not a local investigation unit exists.

The charter was presented to and approved by the Management Board of Dexia SA on 28 June 2010, the Management Board of Dexia Crédit Local on 27 July 2010 and the Audit Committee of Dexia Crédit Local on 4 August 2010.

In accordance with these principles, the inspection function for Dexia Crédit Local and its subsidiaries and branches is performed by the staff of the Dexia SA Investigations & Branch Audit unit. This unit consists of a Group Head of Investigations & Branch Audit and several investigation managers. The Group Head of Investigations & Branch Audit of Dexia SA reports directly to the Chief Auditor of Dexia SA.

The Investigations & Branch Audit unit of Dexia SA is joined on its audits by a bank inspection correspondent from the Dexia Crédit Local Internal Audit department.

The Investigations & Branch Audit Division is therefore accountable to the Chief Auditor of Dexia Crédit Local and the Group Head of Investigations & Branch Audit of Dexia SA for the assignments carried out at Dexia Crédit Local and its branches and subsidiaries.

The implementation of the charter entails the signing of various service level agreements (SLAs) between Dexia SA and Dexia Crédit Local and between Dexia SA and the subsidiaries of Dexia Crédit Local. The projects were developed with the assistance of the General Secretariat, and the goal is to have the SLAs validated and signed during the first half of 2011.

The Investigation & Branch Audit charter also requires that details regarding rules governing access to personal data in the various entities be agreed upon with the Compliance function.

The IBA charter will be published and distributed to all Group staff members during the first half of 2011 so that each Dexia Group employee can appreciate the importance of the function's role within the internal control and management support systems of the Dexia Group.

Activities in 2010

In 2010, apart from the development and implementation of the Investigations & Branch Audit function, the function conducted eight surveys within the Dexia Crédit Local consolidation scope. According to the classification of fraud risk established by the Basel II Committee on Banking Supervision, audits carried out or underway can be assigned the following categories of risk: internal fraud (six audits), external fraud (one audit) and practices relating to employment and workplace safety (one audit).

2.1.10. DEXIA GROUP

The executive management body of the Dexia Group is the Management Board of Dexia SA.

The Group Management Board is responsible for oversight of the Dexia Group and coordination of its various business lines and the specialised activities that support them.

In connection with the transformation plan set in place in 2009-2010, the Dexia Group has defined general principles governing the organisation and operating procedures of the functions: the goal is to improve their functioning in order to enhance risk control, promote the increased responsibility of the operating entities and increase the effectiveness of the Group's management, while ensuring respect for the individual corporate interests of its component entities.

The members of the Management Board of Dexia SA have been granted specific Group-wide authorities that they split amongst themselves, namely, as at 31 December 2010, for the Public and Wholesale Banking and Retail and Commercial Banking business lines and the finance and risk management functions.

The Group Management Board may also meet in its expanded form, known as the Group Executive Committee, to address Group-wide or highly significant matters. In addition to the members of the Management Board, the Executive Committee includes the heads of the Group's other control and support functions, namely the Executive Vice Presidents in charge of Treasury and Financial Markets; Operations and Information Systems; Strategy, M&A and Transversal Projects; Human Resources; and Compliance, Legal and Tax.

As of 1 January 2011, the Management Board of Dexia SA has expanded to 10 members in order to assemble the critical skills necessary to enable Dexia to achieve the objectives of its strategic plan. The EVPs of Human Resources, Operations and Information Systems, Strategy, M&A and Transversal Projects, and Compliance, Legal and Tax are joining the Group Management Board.

The new Management Board now consists of the following:

- the Chief Executive Officer and Chairman of the Management Board;
- the EVP-Public and Wholesale Banking, who is also Chief Executive Officer of Dexia Crédit Local;
- the Chairman of the Management Board of Dexia Bank Belgium and EVP-Retail and Commercial Banking;
- the Chief Executive Officer of DenizBank;
- the EVP-Human Resources;

- EVP-Strategy, Portfolios and Financial Markets Activities;
- the Chief Risk Officer;
- the Chief Financial Officer;
- the EVP-Operations and Information Systems; and
- the EVP-Compliance, Legal, and Tax.

The departments most specifically concerned by internal control are the following:

- the Internal Audit department, which reports directly to the Chief Executive Officer and Chairman of the Management Board, establishes all procedures used within the Group, coordinates and helps perform audits of Group-wide functions in several entities, audits all Group functions, and audits the internal audit functions within the different entities;
- the Risk Management department, under the responsibility of the Chief Risk Officer, who is a member of the Management Board, oversees the Group's risk management policy. It establishes policies for risk limits and authorities, controls and measures the aggregate risk of the Group as a whole and puts standard methods in place in the various entities;
- the Group Chief Compliance Officer, who reports directly to the Secretary General and has been granted direct access to the Chairman of the Management Board of Dexia SA and to the Chairman of the Dexia SA Internal Control, Risk Management and Compliance Committee so that he can report to them directly on any significant incidents. The Group Chief Compliance Officer coordinates the network of Compliance Officers within the various entities and ensures compliance with the integrity policy and the propagation of the ethical and compliant culture that has been one of the Dexia Group's chief assets since it was founded (see Section 2.1.8);
- the Permanent Control department's monitoring unit, which reports to the Group Chief Compliance Officer, is responsible for (i) defining methodology, guidelines and reporting, (ii) preparing the Group's permanent control plan, (iii) challenging the permanent control plans of the business lines and the entities and (iv) consolidation of results at the Group-wide level.

2.2. Preparation and processing of accounting and financial information

2.2.1. FINANCIAL STATEMENTS

The principal goal of the financial statements is to present a true and fair view of a company's net worth, financial position and results. This task is particularly demanding for a financial institution, where the unit of account – money – is intertwined with the very purpose of the activity.

CRB Regulation 97-02 as amended, relating to internal control, stipulates in its section on accounting that the organisation put in place must guarantee the existence of a set of procedures referred to as the "audit trail". This audit trail must allow all accounting information provided to be tied back to an original supporting document, and vice versa. This is the basic policy on which the Dexia Crédit Local Group bases the organisation of its accounting function.

a. Duties and organisation of the accounting department

Reporting to the Chief Financial Officer of Dexia Crédit Local (who is a member of the Management Board), the Accounting department plays a central role in the Company's organisation.

The Accounting department is responsible for preparation of the parent company financial statements of Dexia Crédit Local, as well as those of any subsidiaries that do not have their own accounting department. It is also responsible for preparation of the consolidated financial statements of the Dexia Crédit Local Group. A specialised unit monitors compliance with regulatory standards and principles of conservatism.

As part of the consolidation process, the Accounting department also monitors and verifies the accounting data produced by the Bank's French and foreign subsidiaries and branches. In particular, it verifies that the information provided is consistent and compliant with Group rules.

Generally speaking, the Accounting department has various means of obtaining the information it requires to fulfil its assignment of monitoring the accounting function in the broadest sense of the term. It is represented on all committees that may be relevant to its function, or is at least provided with a copy of the minutes of their meetings. Staff members frequently make site visits to foreign subsidiaries and branches. The department participates in changes to IT systems in order to ensure that its specific needs are taken into account.

In connection with the Dexia Group's transformation plan, the Finance function has set three knowledge centres related to the activities of the Accounting department in place at the Dexia SA level. The consolidation and accounting standards and controls units all report directly to Dexia SA. Dexia Crédit Local has set a series of service contracts in place with its parent company so that these functions can be performed by the central teams, under a joint management with the Chief Accountant and Chief Financial Officer of the entity. The members of these units maintain close relationships with the local teams, and, in addition to the duties they perform on behalf of Dexia Crédit Local, they also play a Group-wide (or "horizontal") role at the Dexia Group level.

The Accounting department maintains a unit in charge of the accounting information system, which allows it to participate actively in the implementation of transformation projects and improvement of existing systems alongside the other applications used in the Finance function.

The Accounting department uses the work performed by the Dexia SA accounting controls unit to conduct independent verifications. Moreover, and in connection with Dexia Crédit Local's ISO 9001 certification, the Accounting department has established a quality correspondent who assists the Chief Accountant in his role of assessing the quality of the process by which financial information is produced.

The accounting system has been adapted to raise the level of quality and efficiency of its processes and to make the consolidated accounting information it produces more reliable on a continuing basis, especially in the context of the uniform application of International Financial Reporting Standards (IFRS) throughout the Dexia Crédit Local Group. The independent verification unit participates in the permanent control process. It strives to verify the materiality and the relevance of the controls performed during the quarterly account closings for the consolidation scope within the Head Office of Dexia Crédit Local. The unit regularly carries out assignments in the international entities, with a frequency suited to the size and financial risks of the entity involved, notably to ensure that all accounting methods are properly applied.

Preparation of the parent company financial statements

In order to prepare the financial statements of the parent company, data is largely posted automatically to Dexia Crédit Local's accounting system by the upstream management systems used to manage customer transactions, financial market counterparties and general operating expenses. When a transaction is recorded in any of these management systems, automated account mappings automatically generate accounting entries. These entries feed into the financial statements using a single accounting system that incorporates two sets of standards (French GAAP and EU IFRS [IFRS as adopted in the European Union]).

The exhaustiveness and accuracy of the source entries are guaranteed by the internal control systems of the financial control departments. The team in charge of enforcing standards and policies validates the automated charts of accounts under both sets of accounting standards, as well as the processing of complex or unusual transactions. The latter are occasionally entered manually, but they are then covered by specific internal control procedures.

First-level controls are performed by accounting teams specialising by line of business, notably through the analysis of bank reconciliations and technical suspense accounts. Each month, all transactions recorded in the general ledger system are reconciled with those in the management systems, and tests of symmetry are performed on micro-hedged transactions. In order to verify the comparability of interest expense and income from one period to another, these items are measured against average outstandings to calculate more easily comparable average rates. Finally, these departments also draft reports summarising the work performed and identifying any points requiring special attention or procedural improvements to be made in subsequent closings.

Additional checks are also performed by other units of the Accounting department during monthly, quarterly and annual closings. The work done by the business line accounting teams is reviewed periodically to ensure that all controls included in a standardised list have been correctly performed. The summary report issued by these accounting teams is also reviewed. The financial accounts are reconciled with the management accounts every quarter, and comparability between periods is verified using analytical tests. Explanations of the main changes must be provided.

The accounting entries generated during this process are subsequently compiled and aggregated using an automated, standardised process, to form the parent company financial statements of Dexia Crédit Local prepared under French GAAP and the Company's contribution to the consolidated financial statements prepared under EU IFRS. The same is true of all Dexia Crédit Local subsidiaries whose accounting is performed at the Head Office. The Accounting department uses these financial statements, supplemented in some cases by data provided by the management systems, to establish the tables for the notes that form an integral part of the financial statements. The Accounting department then performs cross-checks between the summary reports and the notes to the financial statements. Throughout the entire process, reviews and tests of reasonableness and of compliance with the established procedures are conducted in accordance with the reporting authorities that have been established.

The same work is performed in each of the entities that make up the Dexia Crédit Local Group, although the degree of complexity may vary with the size of these entities and the activities in which they engage.

Preparation of the consolidated financial statements

The financial statements of the international entities that are prepared under local standards are restated to ensure consistency with the accounting policies of the Dexia Crédit Local Group (EU IFRS). These policies are compiled into a consolidation manual that is provided to each Dexia Crédit Local Group entity. Operational instructions are also provided to the entities at each closing date by the Head Office consolidation unit. These instructions set out improvements to be made to the process in light of remarks evinced during preceding periods, and provide details of any changes (systems, new data to be provided, etc.) to be taken into consideration during the period.

Should an entity experience any difficulty interpreting these policies, it can request help from the consolidation unit which, in collaboration with the accounting standards unit, will respond appropriately. Members of these teams make periodic trips to the entities in France and abroad in order to undertake a regular review and to identify any changes in internal or external conditions which may have an accounting impact.

Using their individual financial statements that have been restated to Group norms, each of the entities of the Dexia Crédit Local Group fills in a consolidation package that is incorporated automatically into the consolidation system. Checks are performed on the information that is collected every quarter as well as on data relating to intercompany transactions, the financial statements, and the notes to the financial statements.

These checks are aimed at ensuring the comparability of the information provided and its compliance with Group rules, and providing a better understanding of the principal changes that have taken place in comparison with prior periods. The consolidation unit performs specific adjustments intended notably to eliminate intercompany transactions and incorporate any changes in the scope of consolidation.

A specialised accounting permanent control team performs additional checks to ensure the proper application and quality of the control procedures of the various accounting teams in the Head Office and the subsidiaries, suggesting improvements to enhance the effectiveness and standardisation of these procedures and incorporating all of the best practices found within the Group.

Approval of the financial statements

Once it has finalised the parent company financial statements and the consolidated financial statements, the Accounting department presents them to the Chief Financial Officer and the Chief Executive Officer of Dexia Crédit Local for review. The financial statements are subsequently reviewed by the Management Board, and then presented to the Audit Committee.

As required by law, the Board of Directors of Dexia Crédit Local approves the parent company financial statements and the consolidated financial statements and presents them to the Shareholders' Meeting along with the Group management report. The Board of Directors also reviews the report of its Chairman on internal control procedures as presented to the Shareholders' Meeting.

Publication of the financial statements of Dexia Crédit Local

The summary financial statements are then incorporated into the annual report, which is equivalent to the document de référence required in France by Article 212-13 of the General Regulations of the French Financial Markets Authority (AMF). Using these reports, together with information gathered throughout the closing process, the Accounting department also prepares the written comments for the section of the management report that covers the preparation and analysis of the financial statements.

This accounting and financial information is made public in several ways:

- the financial statements are published in BALO, the French official journal of required publications;
- the annual report equivalent to the document de référence is filed in both paper and electronic formats with the French Financial Markets Authority (AMF); it is also filed with the Clerk of the French Commercial Court and is posted on the Dexia Crédit Local website;
- the half-yearly interim financial report is filed electronically with the AMF and is posted on the Dexia Crédit Local website;
- as required by disclosure regulations, all annual and interim reports are released through an AMF-certified distributor of financial news releases (Hugin).

The Accounting and Communication departments and the General Secretariat perform reciprocal control cross-checks to ensure the consistency of the accounting and financial information published and made available to the public.

b. Role of the Statutory Auditors

The committee composed of two statutory audit firms (the "Statutory Auditors") is involved throughout the entire process of verifying the financial and accounting information in order to promote efficiency and transparency. As part of their review, they analyse accounting procedures and evaluate the internal control systems in place for the sole purpose of determining the type, frequency and scope of their tests. Their review is not intended to provide any specific opinions regarding the effectiveness and reliability of the internal controls; they may, however, choose to share any recommendations they have with regard to internal control procedures and systems that could improve the quality of the accounting and financial information prepared.

Their evaluation of internal controls is based notably on substantive tests, such as obtaining confirmations from a sample of unrelated counterparties.

They issue instructions to the statutory or internal auditors of the subsidiaries and centralise all work performed. They call summary review meetings to present the findings of their audits and evaluate the accounting standards team's interpretation of legal and regulatory statutes. They are provided with all accounting and consolidation procedure manuals, as well as the guidelines issued by the Accounting department. They examine the internal audit reports provided to them. Lastly, they verify the accuracy and consistency of the management report and the financial accounting statements, as well as the consistency of the overall document with the items they have audited.

These reviews enable the Statutory Auditors to obtain reasonable assurance that the financial statements they are certifying are free from any material misstatement.

2.2.2. MANAGEMENT AND SEGMENT DATA

The financial statements (balance sheet, off-balance sheet, income statement, cash flow statement and notes) are not the only quantified analyses released by Dexia Crédit Local to its shareholders and the public. They are supplemented by business reviews, results by business line and discussions of outlook and risk assessments, which are all incorporated into the annual report or transmitted at presentations to financial analysts.

Some of these reports are provided directly by the operating departments or the Risk Management department. Their accuracy is therefore guaranteed by each department's internal control system.

Most of this segment information – and especially that which requires data from different sources to be cross-linked or compiled, or certain high-level figures to be broken down, or accounting data to be restated in order to respect management constraints – is provided to the editors of the annual report by the Planning and Financial Control department. Like the Accounting department, the latter reports to the member of the Dexia Crédit Local Management Board responsible for accounting and financial control. The Planning and Financial Control department contributes to the preparation of financial information in two main ways:

a. Preparation of the Public and Wholesale Banking management report

The monthly management report includes a number of key indicators, including new lending and outstanding long- and short-term loans; amounts on deposit and assets under management; and the volume of loans restructured. The report is compiled based on information provided by the PWB Strategy & Business Development department for France, sourced from its information system, and also by the international entities. Written comments on the various figures are prepared every six months in collaboration with the PWB Strategy & Business Development and PWB International departments.

The controls implemented during the preparation of this management report are based on the following principles:

- preparation by PWB Strategy & Business Development of a document based on the detailed information submitted by the Planning and Financial Control department; this document is then presented to the Management Board of Dexia; activity is analysed in relation to the previous year's results and against the budget, providing an economic explanation and confirmation of results for the current year;
- drafting of a management report each half, with comments on the results prepared together with the PWB International department; the report is then presented to the Management Board for final validation. The report, which provides year-to-date information, is used during the closing of the accounts to provide data for inclusion in the annual report.

b. Calculation of results by line of business

The business lines are defined at the Dexia Group level. Dexia Crédit Local's core business is basically the Public and Wholesale Banking business line, while the results of the Bank's run-off portfolios are allocated to the Legacy Division.

In order to provide investors with a deeper understanding of the profitability of these business lines, the Planning and Financial Control department is responsible for preparing an income statement for each of them.

The calculation of income by business line is monitored each month, and relies essentially on three types of management data:

- loan margins on the Public and Wholesale Banking business are prepared by the Planning and Financial Control department by compiling data from the accounting system – such as average outstanding loans and the interest margin rate – that is generated automatically in much the same way as the pure accounting data;

- financial margins on the run-off portfolios and transformation businesses are calculated by the Market Risk Management department, which reports to the Risk Management department, using the internal bill-back system present in each profit centre in the financial activities area;

- liquidity costs (including the margin on deposits from the application of the internal transfer rate between assets and liabilities; the cost of the central government guarantees; and the interest on debt securities issued) are allocated to the various business lines in proportion to their net assets using allocation rules defined by the Group Financial Control department.

Loan margins and financial margins are combined with other types of income, such as fees and commissions, to calculate the total income of each line of business. The sum of these income figures by business line is reconciled with the income figure produced by the Accounting department.

The other items in the income statement are also allocated by business line, especially as concerns general operating expenses and the cost of risk, which are allocated specifically to the business that generated them. The sum of these business line income statement items is reconciled at subtotal level with the income statement produced by the Accounting department.

It should also be noted that the results of the Retail and Commercial Banking business line correspond to the results of Dexia banka Slovensko, the Slovak subsidiary.

In sum, all of these procedures allow complete income statements to be prepared for each business line, in order to foster a better understanding of individual profitability and contribution to the comprehensive income of Dexia Crédit Local.

Compilation process
French and foreign entities with their own financial control units produce the Public and Wholesale Banking management report and calculation of earnings by business line locally using the same standards and principles, which may be adapted with respect to each entity's size, organisation and systems. This standardised list of instructions – the "Financial Control Procedures and Standards Manual" – is used throughout the Dexia Group.

Dexia Crédit Local's Planning and Financial Control department coordinates, monitors, and supervises the entire process. Using applications developed in collaboration with the Dexia Group Financial Control department, it provides all Dexia Crédit Local Group entities with standardised, secure data-gathering tools in order to render the data collection process more reliable and effective. Lastly, it compiles all of the data collected.

While information is being compiled by line of business, the Accounting department oversees the consolidation process.

At each stage of the preparation of the consolidated data, the Planning and Financial Control department and the Accounting department have set in place consistency controls based on the reconciliation of the management and accounting data. Reconciliation of management earnings with accounting earnings is an important component of internal control, to ensure the accuracy of both.

These reconciliations continued to be improved in 2010, notably at the Head Office of Dexia Crédit Local where any variances are analysed and explained.

2.3. Identification of risk and corresponding internal controls

Banking generates four main types of risks: credit risk, market risk, structural risk (interest rate, currency and liquidity) and operational risk.

Monitoring of all these risks is performed jointly by the appropriate committees and the Risk Management department, with the help of tools that it develops, in accordance with the guidelines established by the Dexia Group and all regulatory and supervisory constraints.

As regards the supervision of risks in the subsidiaries and branches, each entity has its own local risk management function. These structures are strictly independent of the front offices and report directly to the Dexia Crédit Local Risk Management department.

Each local risk management function has one or more correspondents in charge of managing operational risk and implementing the Basel reforms. Generally speaking, all of the risk management techniques used at the Dexia Crédit Local level are also used within each subsidiary and branch.

In addition to the general principles described above, the means used by Dexia Crédit Local to manage these risks in practice, both on a day-to-day basis and under exceptional circumstances, are described below.

2.3.1. CREDIT RISK

Credit risk represents the potential loss (decrease in the value of the asset or default of payment) that Dexia Crédit Local may incur due to the deterioration of a counterparty's solvency.

The principles of credit risk management are explained in Section 2.1 Credit risk of the risk management section of the management report, and data regarding exposure by region and by type of counterparty is presented in the notes to the consolidated financial statements.

a. Approval process

Any commitment that can give rise to a credit risk must be approved in accordance with a lending approval process organised according to volume, rating and type of counterparty. The Credit Committee process is described in Section 2.1.5. The approval process also includes a system of delegations of authority for French public sector customers, and of very limited delegations of authority to the Italian and Spanish subsidiaries for their public sector customers only.

b. Establishment of credit limits

Credit risk limits are defined at the level of the Dexia Group as a whole, in order to manage the Group's risk profile and to limit any concentrations of risk. A credit limit is established for each counterparty in accordance with the existing credit risk policies. This limit represents the maximum exposure to credit risk that Dexia is prepared to accept for a given counterparty. The total exposure held by Dexia Crédit Local and its subsidiaries and by any other Dexia Group entity for any given counterparty must remain below the limit set for that counterparty. Limits may also be imposed by business sector and by product. To take account of events as they occur, specific limits may be frozen at any time by the Risk Management department.

These limits are controlled in advance of any credit approval, operation by operation, and retrospectively in the exposure reports provided to the regulatory authorities and the decision-making bodies of the Bank.

c. Monitoring and reporting of information

The monitoring process is based upon two levels:

- first-level monitoring is provided by the front office teams of the Head Office, branches and subsidiaries as part of their permanent controls of their counterparties' financial strength;
- second-level monitoring is provided by the Risk Management department, which collects and consolidates exposures, delinquent payments and non-performing loans and participates in the approval of reserves every quarter.

Every quarter, the Management Board reviews a risk update of all changes in the various risks. The consolidated monitoring of risk within the subsidiaries and branches uses the processes already described.

d. Internal credit ratings

To measure its credit risk, Dexia Crédit Local makes particular use of the entire internal rating mechanism set in place in connection with Basel II for the Dexia Group as a whole. Credit risk analysts are responsible for assigning credit ratings to all counterparties. Each rating corresponds to an assessment of the level of risk of the counterparty expressed through an internal scale which, unless otherwise justified, takes account of all potential risks related to the country in which it is established. Once it has been assigned, the internal rating is a key factor in the decisions made by the Credit Committee. By reviewing ratings every year, Dexia is able to proactively identify those counterparties that require more regular monitoring, which are then incorporated into a watchlist that is reviewed once a quarter jointly by the Risk Management department and the Commercial department within a Special Mention and Watchlist Committee.

The proper use of the internal rating system is controlled by the Group Quality Control unit, which regularly reviews the quality of the data and the results.

e. Reserve policies

Once a quarter, a Reserves Committee, chaired by the Risk Management department, approves the amount of reserves allocated and establishes the cost of risk. General reserves are calculated and maintained as required by IFRS regulations, in order to protect the Bank from any unexpected losses. These reserves are controlled notably by reconciling them to the accounting data.

2.3.2. MARKET RISK

a. Scope

Market risk is the risk of loss relating to fluctuations in market prices and interest rates, their interactions and their level of volatility.

Dexia Crédit Local also administers a bond portfolio consisting of good quality bonds. This portfolio includes: a proprietary credit spread portfolio; a portfolio comprising positions taken in the course of the Bank's lending to local sector players; and lastly a held-for-trading portfolio. These portfolios are part of the Portfolio Management Group (PMG) held for run-off in Dublin.

This bond portfolio is managed in such a way as to avoid exposure to interest rate risk, using suitable hedges. The only risk to which the portfolio is exposed other than the risk of default by the issuer is the risk from the credit spread, as any changes impact either the AFS reserves (for those portfolios classified in AFS) or the income statement (for the held-for-trading portfolio). The rest of the portfolios are classified in Loans and other Receivables (L&R).

The management principles for these risks are detailed in Section 3.2. "Market risk" in the risk management section of the management report, and quantitative exposure data for equity risk and interest rate risk is presented in the notes to the consolidated financial statements ("Sensitivity of listed shares" and "Risk on resetting of interest rates: analysis by time until next interest rate reset date – analysis of assets and liabilities").

In 2010, Dexia Crédit Local continued to significantly reduce its exposure to market risk.

b. Organisation of monitoring

Two committees are responsible for the monitoring of financial markets-related risks:

- the Market Risk Group Committee (MRGC) meets monthly at the Dexia Group level. Dexia Crédit Local is represented by either the Chief Market Risk Officer or the EVP-Treasury and Financial Markets, who have an explicit mandate defining their decision-making authority. The MRGC is responsible for defining and monitoring all risk policies, such as guidelines and market risk limits. The committee notably establishes guidelines for the development of all new market activities. Every quarter, this committee is divided into specific committees for monitoring the risks and results of the business lines. The Dexia Crédit Local Risk Management department provides the Dexia Crédit Local Management Board with a quarterly (or more frequent, if need be) report informing it of all changes in the Bank's consolidated risks (exposures, limits, limits that have been exceeded) and changes to its monitoring system (modification of measurement methods or guidelines);
- the Dexia Crédit Local Financial Markets Committee is called the Weekly Operational Committee; it provides local monitoring of the correct application of the standards and decisions set down by the Dexia Market Risk Group Committee, and ensures that all information is provided to the appropriate Dexia Crédit Local managers.

The Risk Management department's Market Risk Management unit measures risk regularly.

Their report, which is presented quarterly to the Management Board, is based on various indicators for monitoring the limits allocated to the various risks, and which are presented in detail in the management report.

In addition to these regular quarterly presentations, the quarterly risk review that details all of Dexia Crédit Local's risks includes a summary of market risks (equity, interest rate and credit). The Finance Committee, which meets monthly, is informed of the liquidity position and makes decisions regarding the hedging of structural interest rate and currency risks.

2.3.3. STRUCTURAL RISKS: INTEREST RATE, CURRENCY AND LIQUIDITY

a. Scope

Structural risks are grouped under the name of Balance Sheet Management (BSM) risks. BSM is used to hedge risks related to the balance sheet structure, either partially or in full. Apart from interest rate risks and currency risks stemming from the Financial Markets business line, the ALM Committee is responsible for all of Dexia Crédit Local's other significant interest rate, currency and liquidity risks.

The management principles for these risks are detailed in Sections 3.2. "Market risk" and 3.4. "Liquidity risk" in the risk management section of the management report, and quantitative exposure data for interest rate, currency and liquidity risk is presented in the notes to the consolidated financial statements ("Liquidity risk" and "Currency risk").

b. Organisation of monitoring

Four committees are responsible for the monitoring of BSM risks:

- the Dexia ALM Committee (ALCO) meets monthly. It defines risk policy and the methods used to hedge risks for the entire scope of the Dexia Group. The guidelines set by the Dexia ALM Committee enable individual hedging decisions to be made, but management authority may also be delegated to the Dexia ALM department. It also ensures that these limits are used consistently according to its own scenarios for interest rate movements. Dexia Crédit Local is represented on the committee by either its CEO or its Chief Risk Officer;

- the Funding & Liquidity Committee (FLC) meets weekly. By delegation from the Group ALCO, the FLC centralises and coordinates the decision-making process for all liquidity-related issues. The FLC is in charge of monitoring changes in short- and long-term funding needs and establishing Dexia's overall funding strategy. It is also responsible for examining and updating the stress scenarios that must be considered with regard to liquidity; for establishing emergency action plans and proposing corrective measures to improve the Group's liquidity profile; and for coordinating the general reporting of liquidity to the Group's various boards as well as to all rating agencies, regulators, and central banks and governments. Acting as a knowledge centre for liquidity, Dexia Bank Belgium collects the information from each entity (stress scenario, integration of specificities of each Dexia Crédit Local entity, inventory of reserves, etc.) and centralises this information in view of optimising the Bank's funding conditions and ensuring the sufficiency of its reserves;

- the Dexia Crédit Local ALM Committee (Dexia Crédit Local ALCO) meets monthly. The Group ALCO delegates authority to the Dexia Crédit Local ALCO for the monitoring and operational management of balance sheet risks (interest rate, currency, liquidity, etc.) at the consolidated Dexia Crédit Local level. As such, Dexia Crédit Local ALCO:

  - manages the balance sheet risk of all Dexia Crédit Local Level 1 entities (the Dexia Crédit Local parent company, Dexia Kommunalkredit Bank, Dexia Crédit Local Tokyo and French subsidiaries);

  - monitors the management of the balance sheet risk of all Dexia Crédit Local Level 2 entities (Dexia Crédit Local New York, Dexia Financial products, Dexia Kommunalbank Deutschland, Dexia banka Slovensko, Dexia Israel Bank Ltd, Dexia Crediop and Dexia Sabadell);

  - provides coordination between Group ALCO and the local ALM Committees: implementation of decisions, feedback of information, etc.

- the committee is composed of the Chief Executive Officer and/or the Chief Risk Officer, the CFO and the EVP-Financial Markets.

- Dexia Crédit Local ALCO decisions are implemented locally during ALM Committee meetings for those entities with their own BSM unit, or during Finance Committee meetings for all others. At Dexia Crédit Local Paris [the parent company], the Interest Rates and Liquidity committees meet twice a month. These committees are composed of the CFO of Dexia Crédit Local Paris or his representative, and representatives from the Risk Management and Financial Markets departments. The committee's main role is to conduct regular monitoring of the balance sheet risk of Dexia Crédit Local, for both the parent company and the consolidated group.

2.3.4. OPERATIONAL RISKS

a. Scope

Operational risks are defined as the risk of a loss resulting from inadequate or failed internal processes, people and systems, or from external events. They include all risks related to information systems security and litigation. Dexia has chosen to include reputation risk in its Operational Risk Management.

b. Organisation and monitoring

Operational Risk Management

The Dexia Group has elected to apply the standardised approach allowed under the Basel II directives and has implemented processes and a management tool as called for in the paper on "Sound Practices for the Management and Supervision of Operational Risk" published by the Basel Committee on Banking Supervision.

A specialised team in the Dexia Crédit Local Risk Management department is responsible for operational risk, and works with a network of correspondents in each department and entity. The involvement of the business line EVPs enhances the effectiveness of the system.

Operational Risk Management is coordinated at Dexia Group level by the Operational Risk Management Committee (ORMC) which meets once a month.

Collection, analysis and processing of incidents

The Dexia Group has defined a procedure for compiling operational risk events and operational losses as required by the provisions of Basel II. Operational risk correspondents are responsible for identifying and analysing all incidents with the help of the central operational risk unit. Depending on the results of this analysis, corrective or preventive measures are taken to reduce exposure to operational risk.

Dexia has a shared Operational Risk Management tool that includes a module for compiling incidents in the various Group entities.

A quarterly report summarising all significant operational risk events is sent to the Management Board and to each business line EVP (in the Head Office, subsidiaries and branches). Each business line EVP or correspondent must commit to ensuring the exhaustiveness of the list of incidents compiled within his scope.

Risk mapping

In addition to the operational risk events that have already been observed, for the Dexia Group to be able to plot its risk profile it is necessary to assess all potential areas of risks and take account of all existing controls. Departments and entities throughout the Dexia Group all use the same method for these risk and control self-assessments. Depending on the results, action plans may be set in place to control exposure to risk.

Various reports analyse the Bank's risk profile by entity, by activity, by process and by type of event (as defined in the Basel II accord) and are presented to the Management Board each year.

c. Information systems security

Information systems security includes all measures taken to shield data from any threat to its confidentiality, integrity or availability.

All these measures are described in the Dexia Crédit Local information systems security policy manual, which defines all applicable principles by area of security, along with the roles and responsibilities of the various players in the IS security process, using a body of directives, specific security policies, rules and operating procedures and the guidelines provided by ISO standard 27000/17799.

Under the supervision of a specialised steering committee, each operating department participated in the preparation of a business continuity plan (BCP). Under the plan, the impacts of a disaster affecting IT equipment or facilities or information systems or even a loss of service are analysed from a business unit perspective in order to identify all mission-critical activities. The results of this analysis were used to establish business recovery times that are compatible with operating requirements. The implementation of this recovery strategy is based on the use of formal, documented technical guidelines, procedures and organisational structures. The BCP and these procedures are all updated once a year, and are tested in accordance with a schedule defined by the Management Board. The results of the tests are reported to the steering committee.

Dexia Crédit Local has also placed critical systems for data production with a service provider, in a single centre under highly secure physical conditions and connected via redundant high-speed links with a point-to-point link between the IT production site and Dexia Crédit Local Head Office. Dexia Crédit Local has also set up a mirror site to prepare for any failure in these systems. Dexia periodically backs data up and can very quickly substitute this site for the main site, if need be. This system was successfully tested in 2010.

Information systems security is managed by three participants:

- the IT Security Committee recommends security policies to the Management Board, establishes specific directives for each area and ensures that they are implemented. The committee includes representatives from the various "functional" stakeholders, including risk management, compliance, IT and logistics. The Committee meets every two months, and is chaired by the Chief Risk Officer, who is a member of the Management Board;

- the Information Systems Security Officer is responsible for recommending security policies and directives to the IT Security Committee. He oversees the practical implementation of the rules that make up the security policy, increases employee awareness and provides advice to the various departments. The IT Security Manager is a member of the Operational Risk Management department, which guarantees his independence from the operating areas;

- IT departments are responsible for designing and implementing all security hardware and software, and for implementing all associated operational rules and procedures. They also perform first- and second-level controls over the correct application of security. The IT Security Manager position created within the IT department coordinates these actions.

The business continuity plans of the subsidiaries and branches are reviewed every year to assess the adequacy of each entity's plan and to put together, if necessary, the appropriate action plans.

d. Legal risk

The General Secretariat performs six main functions:

- in-house advisory services;

- drafting and verification of legally binding and tax-related deeds and documents;

- management of litigation;

- maintaining a watch in its areas of specialisation, including a compliance-related regulatory watch;

- legal secretariat services for Dexia Crédit Local and its subsidiaries;

- administrative supervision of investments, trademarks and delegations of power.

It therefore plays a key role in preventing matters from being taken to litigation, anticipating changes in the law and ensuring compliance with the principles of corporate governance.

Functional relationships have been established between the General Secretariat of Dexia Crédit Local and the equivalent structure for the Dexia Group, in order to promote discussion of legal strategies and cases.

Similarly, the General Secretariat of Dexia Crédit Local has established regular contacts with its counterparts in the subsidiaries and branches, with exchanges of all appropriate information.

Reporting applications for risks on the areas covered have been set in place within the function.

e. Insurance of operational risks

Dexia Crédit Local currently has traditional property and casualty insurance, including general hardware and facilities multi-risk, vehicle and third-party liability. All French subsidiaries are covered under these polices.

Dexia Crédit Local has also taken out policies for the following risks: Directors' and Officers' liability for the members of the management bodies, third-party professional liability, additional operating costs and so-called "comprehensive bank coverage", which covers fraud and the financial impact of damage to assets and/or documents. These guarantees also cover all French and foreign entities controlled by Dexia Crédit Local.

2.4. Control and monitoring of internal controls

2.4.1. CHIEF EXECUTIVE OFFICER AND MANAGEMENT BOARD

The Chief Executive Officer, assisted by the Management Board that he chairs, plays a vital role in the assessment of internal control. He has access to several sources of information to enable him to accomplish all of his duties in this area. The Chief Executive Officer has no potential conflicts of interest between his duties with respect to Dexia Crédit Local and his personal interests or other duties.

The members of the Management Board each have a personal interest in operational responsibilities by business line or by function. They therefore have a comprehensive understanding of the constraints and opportunities in their respective fields of activity, and are thus able to define internal control procedures and to judge their effectiveness.

The most sensitive horizontal, Group-wide Committees are chaired by a member of the Management Board, who can subsequently summarise the work involved for all the members.

The Management Board has also implemented a system of delegation and reporting that requires the operations departments to present and approve the key indicators, through which it is able to judge the quality and smooth running of the internal control system.

Internal Audit is also a valued source of information for the Chief Executive Officer and the Management Board. They receive all the audit reports, which are discussed and commented on during meetings and they approve all recommendations and action plans. The Chief Auditor reports to the Management Board on the monitoring of audit recommendations. The Chief Executive Officer can also request the Internal Audit department to perform assignments that are not scheduled in the annual audit plan on topics that he feels require immediate attention.

Both the Statutory Auditors, as part of their audit of the financial statements, and the regulators (in France, essentially the French Prudential Control Authority and the Financial Markets Authority), as part of their inspection duties, make recommendations for improving specific internal control issues. The Management Board subsequently takes the necessary steps so that these recommendations are implemented as quickly as possible.

2.4.2. AUDIT COMMITTEE

The Audit Committee is delegated by the Board of Directors to help it carry out its functions in overseeing the management of Dexia Crédit Local. The Audit Committee focuses specifically on those procedures covering the preparation of the financial statements and monitoring of risk, and is also responsible for managing relationships with the Statutory Auditors.

In accordance with the recommendations of the AMF, as part of its responsibilities, the Audit Committee:

- analyses financial information, accounting procedures and compliance with legal, regulatory and statutory requirements;
- examines the findings, comments and recommendations of the Statutory Auditors and may suggest any additional assignments it finds appropriate;
- examines, prior to their approval by the Board and their publication, the quarterly, half-year and annual financial statements;
- provides the Board of Directors with an opinion on the appointment of the Statutory Auditors;
- ensures that appropriate internal control and risk management procedures exist and have been implemented, notably with regard to credit, market and operational risk;
- ensures that all recommendations made by regulatory authorities and the Dexia Crédit Local rules of conduct are taken into account;
- is notified of the long-term audit plan and audit plan for the coming year, and any changes that may be made during the year;
- ensures the adequacy of the resources at the disposal of the Internal Audit department;
- is informed of the work performed by the Internal Audit and Bank Inspection departments through internal control reports, audit plan progress reports and recommendation monitoring reports;
- reviews the situation as regards compliance, and is consulted on the rules relating to the integrity and professional ethics policy in force, especially as concerns protection of the Group's image;
- is informed quarterly of the liquidity position;
- is consulted on all audit-related regulations in effect within Dexia Crédit Local.

The Audit Committee reports on its work and observations to the Board of Directors.

In performing its assignments, the Audit Committee has unfettered access to the Statutory Auditors, the Chief Auditor and the Chief Compliance Officer of Dexia Crédit Local. It informs the Chief Executive Officer of its contacts immediately.

It is also informed of any interventions undertaken by the regulatory regulators and by the Internal Audit department within the Dexia Crédit Local Group (scope of the assignment, progress that has been made, findings and responses made, etc.).

It may request copies of the audit reports. It is also empowered to suggest any additional assignments.

The Committee can request any information that it may deem useful.

2.4.3. DEXIA GROUP

The Dexia Group plays a major role in monitoring internal control within the Dexia Crédit Local Group. The latter's managerial organisation actively involves representatives of the Dexia Group: the Board of Directors of Dexia Crédit Local includes the Chairman of the Board of Directors, the Chairman of the Management Board and the Chief Financial Officer of Dexia SA. The Chief Executive Officer of Dexia Crédit Local is also a member of the Management Board of Dexia SA. In addition, the Group Management Board and Executive Committee are provided with copies of all reports on Company-wide audits, which generally concern Dexia Crédit Local and its subsidiaries.

The Chairman of the Board of Directors of Dexia Crédit Local is copied on the Internal Audit department's business review, and has access to all audit reports. He may regularly query the Chief Executive Officer of Dexia Crédit Local about internal controls. Lastly, he may ask the Group Internal Audit department or an independent audit firm to investigate any Dexia Crédit Local function, if he feels it is warranted.

Jean-Luc Dehaene
Chairman of the Board of Directors

Statutory Auditors' Report

Prepared in accordance with Article L.225-235 of the French Commercial Code, on the report of the Chairman of the Board of Directors of Dexia Crédit Local

This is a free translation into English of the Statutory Auditors' report issued in French prepared in accordance with Article L.225-235 of the French Commercial Code on the report prepared by the Chairman of the Board of Directors on the internal control procedures relating to the preparation and processing of accounting and financial information issued in French and is provided solely for the convenience of English speaking users.

This report should be read in conjunction and construed in accordance with French law and the relevant professional standards applicable in France.

To the Shareholders:

In our capacity as Statutory Auditors of Dexia Crédit Local and in accordance with Article L.225-235 of the French Commercial Code *(Code de commerce)*, we hereby report to you on the report prepared by the Chairman of the Board of Directors of your Company in accordance with Article L.225-37 of the French Commercial Code in respect of the year ended 31 December 2010.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report on the internal control and risk management procedures implemented by the Company and containing the other disclosures required by Article L.225-37 of the French Commercial Code, particularly with respect to the corporate governance mechanism.

Our own responsibility is to:

- report to you any observations we may have regarding the information contained in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of accounting and financial information; and
- attest that this report contains the other disclosures required by Article L.225-37 of the French Commercial Code, it being specified that we are not responsible for verifying the fair presentation of these disclosures.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

Professional standards require that we perform the necessary procedures to assess the fair presentation of the information provided in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of accounting and financial information.

These procedures consisted mainly in:

- examining the underlying internal control and risk management procedures relating to the preparation and processing of accounting and financial information on which the information presented in the Chairman's report is based, and all existing documentation;
- examining the work involved in the preparation of this information and the existing documentation;
- determining whether all significant weaknesses in the internal control procedures relating to the preparation and processing of accounting and financial information that we would have noted in the course of our audit are properly disclosed in the Chairman's report.

On the basis of the procedures performed, we have nothing to report on the information in respect of the company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Board of Directors in accordance with Article L.225-37 of the French Commercial Code.

Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by Article L.225-37 of the French Commercial Code.

Neuilly-sur-Seine and Courbevoie - 5 April 2011

The Statutory Auditors

French original signed by Mazars : Virginie Chauvin, Hervé Hélias et Deloitte & Associés : José-Luis Garcia.

4 – Consolidated financial statements

Consolidated balance sheet

Assets

(EUR millions)	Note	As at 31 December 2008	As at 31 December 2009	As at 31 December 2010
I. Cash, central banks and postal checking accounts	*2.0*	632	901	424
II. Financial assets at fair value through profit or loss	*2.1*	25,418	13,472	16,686
III. Hedging derivatives	*4.1*	8,119	8,820	12,317
IV. Available-for-sale financial assets	*2.2*	60,674	47,617	39,083
V. Interbank loans and advances	*2.3*	35,892	26,796	22,625
VI. Customer loans and advances	*2.4*	248,916	239,198	239,982
VII. Fair value revaluation of portfolio hedge		2,084	1,788	2,144
VIII. Held-to-maturity financial assets	*2.5*	1,131	973	839
IX. Current tax assets	*2.6*	37	78	93
X. Deferred tax assets	*2.6*	2,613	1,968	1,541
XI. Accruals and other assets	*2.7*	21,457	17,888	24,316
XII. Non-current assets held for sale	*4.6*	6,225	0	19
XIII. Investments in associates	*2.8*	275	0	0
XIV. Investment property	*2.9*	0	0	0
XV. Tangible assets	*2.9*	504	500	529
XVI. Intangible assets	*2.10*	77	66	60
XVII. Goodwill	*2.11*	206	200	200
TOTAL ASSETS		**414,260**	**360,265**	**360,858**

Liabilities

(EUR millions)		Note	As at 31 December 2008	As at 31 December 2009	As at 31 December 2010
I.	Central banks and postal checking accounts	3.0	64,222	28,491	18,517
II.	Financial liabilities at fair value through profit or loss	3.1	24,641	15,615	19,256
III.	Hedging derivatives	4.1	27,819	21,487	31,048
IV.	Interbank borrowings and deposits	3.2	91,210	76,947	78,070
V.	Customer borrowings and deposits	3.3	17,619	13,967	13,457
VI.	Debt securities	3.4	172,853	190,896	190,068
VII.	Fair value revaluation of portfolio hedge		1,386	1,884	1,984
VIII.	Current tax liabilities	3.5	123	127	52
IX.	Deferred tax liabilities	3.5	23	5	9
X.	Accruals and other liabilities	3.6	5,372	4,462	3,659
XI.	Liabilities related to non-current assets held for sale		5,697	0	0
XII.	Technical provisions of insurance companies	3.7	0	0	0
XIII.	Provisions	3.8	203	263	137
XIV.	Subordinated debt	3.9	5,002	4,846	4,319
XV.	Equity	3.10	(1,910)	1,275	282
XVI.	Equity, Group share		(2,107)	918	32
XVII.	Capital stock and additional paid-in capital		6,614	2,062	2,702
XVIII.	Reserves and retained earnings		3,456	4,453	4,708
XIX.	Unrealised or deferred gains and losses		(8,621)	(5,866)	(6,682)
XX.	Net income for the period		(3,556)	269	(696)
XXI.	Minority interests		197	357	250
TOTAL LIABILITIES			**414,260**	**360,265**	**360,858**

Consolidated income statement

	(EUR millions)	Note	2008	2009	2010
I.	Interest income	*5.1*	55,836	32,297	24,988
II.	Interest expense	*5.1*	(54,067)	(30,999)	(24,374)
III.	Fee and commission income	*5.2*	181	149	158
IV.	Fee and commission expense	*5.2*	(63)	(41)	(47)
V.	Net gains (losses) on financial instruments at fair value through profit or loss	*5.3*	(357)	337	(59)
VI.	Net gains (losses) on available-for-sale financial assets	*5.4*	81	81	(481)
VII.	Other income(1)	*5.5*	506	65	52
VIII.	Other expenses(1)	*5.6*	(143)	(37)	(48)
IX.	**NET BANKING INCOME**		**1,974**	**1,852**	**189**
X.	Operating expenses	*5.7*	(733)	(502)	(473)
XI.	Depreciation, amortisation and impairment of tangible and intangible assets	*5.8*	(56)	(52)	(49)
XII.	**GROSS OPERATING INCOME**		**1,185**	**1,298**	**(333)**
XIII.	Cost of risk	*5.9*	(3,387)	(630)	(443)
XIV.	**OPERATING INCOME**		**(2,202)**	**668**	**(776)**
XV.	Income from associates	*5.10*	(53)	(1)	0
XVI.	Net gains (losses) on other assets	*5.11*	(1,036)	(102)	31
XVII.	Impairment on goodwill	*5.12*	(1,181)	(6)	0
XVIII.	**INCOME BEFORE TAX**		**(4,472)**	**559**	**(745)**
XIX.	Income tax	*5.13*	556	(239)	18
XXI.	**NET INCOME**		**(3,916)**	**320**	**(727)**
XXII.	Minority interests		(360)	51	(31)
XXIII.	**NET INCOME GROUP SHARE**		**(3,556)**	**269**	**(696)**
	Earnings per share, Group share				
	– Basic (in EUR)		(40.85)	3.09	(7.99)
	– Diluted (in EUR)		(40.85)	3.09	(7.99)
	(1) Including technical margin of insurance companies		*339*	*25*	*0*

Net income and unrealised or deferred gains and losses through equity

(EUR millions)		2008	2009	2010
I.	**NET INCOME**	**(3,916)**	**320**	**(727)**
II.	Translation adjustments	171	19	76
III.	Unrealised or deferred gains and losses on available-for-sale financial assets	(8,250)	3,039	(664)
IV.	Unrealised or deferred gains and losses on cash flow hedges	(1,410)	502	91
VII.	Unrealised or deferred gains and losses of associates	(3)	30	0
VIII.	Taxes	2,119	(736)	(403)
IX.	**TOTAL UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY**	**(7,373)**	**2,854**	**(900)**
X.	Net income and unrealised or deferred gains and losses through equity	(11,289)	3,174	(1,627)
XI.	Of which, Group share	(10,722)	3,024	(1,512)
XII.	Of which, minority interests	(567)	150	(115)

Consolidated statement of changes in equity

(EUR millions)	Core equity			Unrealised or deferred gains and losses					Minority interests			
	Capital stock, additional paid-in capital	Reserves, retained earnings and net income for the period	Total	Change in fair value of available-for-sale financial assets, net of taxes	Change in fair value of cash flow hedges, net of taxes	Cumulative translation differences	Total	Equity, Group share	Core equity	Unrealised or deferred gains and losses	Total	Equity
As at 31 December 2007	**3,114**	**3,868**	**6,982**	**(1,215)**	**46**	**(285)**	**(1,454)**	**5,528**	**821**	**(62)**	**759**	**6,287**
Movements during the period												
Changes in capital	(826)	0	(826)				0	(826)	92		92	(734)
Changes in additional paid-in capital	4326	0	4,326				0	4,326	0		0	4,326
Dividends		(415)	(415)				0	(415)	(19)		(19)	(434)
Translation adjustments			0	(202)	(34)	147	(89)	(89)	0	13	13	(76)
Changes in fair value of available-for-sale financial assets through equity			0	(6,739)			(6,739)	(6,739)		(296)	(296)	(7,035)
Changes in fair value of derivatives through equity			0		(1,078)		(1,078)	(1,078)		(10)	(10)	(1,088)
Changes in fair value of available-for-sale financial assets through profit or loss			0	753			753	753		86	86	839
Changes in fair value of derivatives through profit or loss			0		(14)		(14)	(14)		0	0	(14)
Net income for the period		(3,556)	(3,556)				0	(3,556)	(360)		(360)	(3,916)
Other movements	0	3	3	0	0	0	0	3	(68)	0	(68)	(65)
As at 31 December 2008	**6,614**	**(100)**	**6,514**	**(7,403)**	**(1,080)**	**(138)**	**(8,621)**	**(2,107)**	**466**	**(269)**	**197**	**(1,910)**

(EUR millions)	Core equity			Unrealised or deferred gains and losses					Minority interests			
	Capital stock, additional paid-in capital	Reserves, retained earnings and net income for the period	Total	Change in fair value of available-for-sale financial assets, net of taxes	Change in fair value of cash flow hedges, net of taxes	Cumulative translation differences	Total	Equity, Group share	Core equity	Unrealised or deferred gains and losses	Total	Equity
As at 31 December 2008	**6,614**	**(100)**	**6,514**	**(7,403)**	**(1,080)**	**(138)**	**(8,621)**	**(2,107)**	**466**	**(269)**	**197**	**(1,910)**
Movements during the period												
Changes in capital	0	0	0				0	0	1		1	1
Changes in additional paid-in capital	(4,552)	4552	0				0	0	0		0	0
Dividends		0	0				0	0	0		0	0
Translation adjustments			0	133	9	19	161	161		5	5	166
Changes in fair value of available-for-sale financial assets through equity			0	1,494			1,494	1,494		23	23	1,517
Changes in fair value of derivatives through equity			0		446		446	446		13	13	459
Changes in fair value of available-for-sale financial assets through profit or loss			0	663			663	663		59	59	722
Changes in fair value of derivatives through profit or loss			0		(9)		(9)	(9)		0	0	(9)
Net income for the period		269	269				0	269	51		51	320
Other movements	0	1	1	0	0	0	0	1	8	0	8	9
As at 31 December 2009	**2,062**	**4,722**	**6,784**	**(5,113)**	**(634)**	**(119)**	**(5,866)**	**918**	**526**	**(169)**	**357**	**1,275**
Movements during the period												
Changes in capital	0	0	0				0	0	0		0	0
Changes in additional paid-in capital	640	0	640				0	640	0		0	640
Dividends		0	0				0	0	(6)		(6)	(6)
Translation adjustments			0	(301)	(34)	75	(260)	(260)		1	1	(259)
Changes in fair value of available-for-sale financial assets through equity			0	(1,627)			(1,627)	(1,627)		(145)	(145)	(1,772)
Changes in fair value of derivatives through equity			0		102		102	102		(7)	(7)	95
Changes in fair value of available-for-sale financial assets through profit or loss			0	972			972	972		67	67	1,039
Changes in fair value of derivatives through profit or loss			0		(3)		(3)	(3)		0	0	(3)
Net income for the period		(696)	(696)				0	(696)	(31)		(31)	(727)
Other movements[(1)]	0	(14)	(14)	0	0	0	0	(14)	14	0	14	0
As at 31 December 2010	**2,702**	**4,012**	**6,714**	**(6,069)**	**(569)**	**(44)**	**(6,682)**	**32**	**503**	**(253)**	**250**	**282**

(1) Other movements are all discussed in note 3.10.c.

Consolidated financial statements

Consolidated cash flow statement

(EUR millions)	As at 31 December 2008	As at 31 December 2009	As at 31 December 2010
Cash flow from operating activities			
Net income	(3,916)	320	(727)
Adjustments for :			
• Depreciation, amortisation and other impairment	1,253	91	81
• Impairment on bonds, equities, loans and other assets	1,466	288	444
• Net (gains) or losses on investments	1,014	(50)	42
• Changes in provisions	1,567	301	(206)
• Unrealised gains and losses	(2)	(8)	(6)
• Income from associates	53	1	0
• Dividends from associates	22	14	0
• Deferred taxes	(828)	70	(37)
• Other adjustments	4	1	0
Changes in operating assets and liabilities (1)	2,343	(6,629)	(1,962)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES(1)	**2,976**	**(5,600)**	**(2,371)**
Cash flow from investing activities			
Purchases of fixed assets	(102)	(72)	(118)
Sales of fixed assets	6	12	18
Acquisitions of unconsolidated equity shares	(195)	(44)	(15)
Sales of unconsolidated equity shares	145	448	39
Acquisitions of subsidiaries	(10)	(24)	0
Sales of subsidiaries	0	371	0
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**(156)**	**691**	**(76)**
Cash flow from financing activities			
Issuance of new shares	3,654	1	640
Redemption of capital	0	0	0
Issuance of subordinated debt	320	0	0
Redemption of subordinated debt	(376)	(93)	(661)
Purchases of treasury stock	0	0	0
Sales of treasury stock	0	0	0
Dividends paid	(434)	0	(6)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	**3,164**	**(92)**	**(27)**
Net cash provided(1)	**5,984**	**(5,001)**	**(2,474)**
Cash and cash equivalents at the beginning of the period(1)	**13,707**	**20,235**	**14,961**
Cash flow provided (used) by operating activities	2,976	(5,600)	(2,371)
Cash flow provided (used) by investing activities	(156)	691	(76)
Cash flow provided (used) by financing activities	3,164	(92)	(27)
Effect of exchange rate changes and changes in consolidation scope on cash and cash equivalents	544	(273)	635
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD(1)	**20,235**	**14,961**	**13,122**
Additional information			
Income tax paid	(99)	(274)	(120)
Dividends received	33	21	8
Interest received	55,814	35,563	26,127
Interest paid	(54,008)	(33,617)	(25,525)

(1) Loans and securities held for trading, loans and securities designated at fair value and cash collateral are excluded from cash and cash equivalents: figures as at 31 December 2008 and 31 December 2009 have been restated accordingly, generating an adjustment of negative EUR 21,339 million for 2008 and negative EUR 17,417 million for 2009.

Cash and cash equivalents

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

Analysis by nature (EUR millions)	**As at 31 December 2008**	**As at 31 December 2009**	**As at 31 December 2010**
Cash, central banks and postal checking accounts (note 2.0)	632	901	424
Interbank loans and advances (note 2.3)	18,776	12,854	11,249
Loans and available-for-sale securities (note 2.2)	827	1,206	1,449
TOTAL*	**20,235**	**14,961**	**13,122**

** Loans and securities held for trading, loans and securities designated at fair value and cash collateral are excluded from cash and cash equivalents: figures as at 31 December 2008 and 31 December 2009 have been restated.*

Of which, restricted cash (EUR millions)	**As at 31 December 2008**	**As at 31 December 2009**	**As at 31 December 2010**
Mandatory reserves[1]	494	496	353
Other	0	0	0
TOTAL RESTRICTED CASH*	**494**	**496**	**353**

(1) Minimum reserve deposits credit institutions must maintain with the European Central Bank (ECB) or other central banks.

** Cash collateral is excluded from the restricted cash: figures as at 31 December 2008 and 31 December 2009 have been restated accordingly, generating an adjustment of negative EUR 21,066 million for 2008 and negative EUR 17,407 million for 2009.*

Consolidated financial statements

Notes to the consolidated financial statements

1. Accounting methods and consolidation scope – accounting policies and valuation methods

1.1. Group companies and consolidation methods

a. Criteria for consolidation and use of the equity method

Dexia Crédit Local applies all rules pertaining to credit institutions with regard to the consolidation scope resulting from:

- IAS 27 Preparation and presentation of the consolidated financial statements of a group of companies controlled by a parent company;
- IFRS 3 Business Combinations, and the impact of accounting methods on consolidation;
- IAS 28 Investments in Associates;
- IAS 31 Interests in Joint Ventures.

The policies laid down by these standards imply that all companies over which the Group exercises exclusive or joint control or notable influence must be consolidated.

All companies that are controlled exclusively or jointly, or over which is held some notable influence, are consolidated.

Pursuant to the principle of a true and fair view of the Group financial statements, any companies not making a material contribution to the consolidated financial statements should not be included in the consolidation scope.

Companies whose cumulative total assets and net income represent less than 1% of total consolidated assets and net income (i.e. respectively EUR 3.6 billion and negative EUR 7 million in 2010) are considered to be below the materiality threshold. At 31 December 2010, the sum of the total assets and the sum of the net incomes of the companies that were not consolidated were below these thresholds.

b. Changes in the consolidation scope compared with 31 December 2009

The main changes in the consolidation scope are shown below:

- Newly consolidated companies
  - First-time consolidation of Dexia Real Estate Capital Markets with effect from 1 April 2010;
  - First-time consolidation of Chuo Mitsui Asset Trust and Banking Company Limited (entity housing the assets previously held by Dexia Crédit Local Bank Tokyo branch).
- Other movements
  Dexia Crédit Local increased its stake in Dexia banka Slovensko from 85.47% to 88.71%.

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

None of these changes had a material impact on the 2010 consolidated financial statements.

d. Significant events in 2010

- On 2 July 2010, the European Commission published its final decision, reached on 26 February 2010, approving the aid granted to Dexia by the States of Belgium, France and Luxembourg. This decision put an end to the in-depth enquiry staged by the European Commission. The European Commission confirmed Dexia's long-term viability, approved Dexia's restructuring plan and acknowledged its significant achievements.
- On 30 June 2010, Dexia fully exited the State liquidity mechanism originally put in place in October 2008. The exit process was conducted gradually, with Dexia waiving the benefit of the guarantee for contracts with a maturity of up to one month and contracts with no fixed maturity as early as October 2009.
  In accordance with the agreement with the European Commission, and given the improvement in the Group's liquidity position, it was agreed that Dexia would exit the guarantee mechanism four months earlier than the agreed initial 30 October 2010 deadline. Therefore, the Group undertook to no longer make use of the guarantee as from the end of May 2010 for all funding of under one year, and as from 30 June 2010 for all medium- and long-term funding.
  All outstanding instruments issued under the government guarantee mechanism prior to 30 June 2010 will continue to benefit from the government guarantee, in accordance with their terms and conditions. With regard to remuneration on this guarantee, Dexia Crédit Local and its branches recorded a charge of EUR 340 million (EUR 251.3 million in 2009).
- On 15 September 2010, Dexia's management presented to the European employee council additional reorganisation and cost-cutting measures as part of the transformation plan defined and initiated back in November 2008. This new phase of the cost savings plan prompted the Dexia Crédit Local group to raise a provision as at 31 December 2010 for restructuring costs pertaining to the closure of the Tokyo and London branches for EUR 20.2 million and EUR 1 million respectively, and EUR 4.3 million for the US operations. In addition, manpower planning measures were implemented with the aim of avoiding layoffs.

- Following a decision made by the Board of Directors at its 14 December 2010 meeting, Dexia Crédit Local increased its capital by means of a cash contribution of EUR 640 million, bringing the total capital stock to EUR 1,140 million. Dexia SA carried out this capital stock increase by converting an existing subordinated loan. In the light of the estimated losses for the year, the Board of Directors decided to reduce the capital stock by EUR 640 million. Dexia Crédit Local's capital stock thus remains unchanged at EUR 500,513,102, divided into 87,045,757 shares with a par value of EUR 5.75 per share.

- In 2010, the Dexia Crédit Local group issued EUR 42.1 billion of medium- and long-term debt, including EUR 23.2 billion under the State guarantee mechanism, in anticipation of the exit from this mechanism, and EUR 12.9 billion in the form of covered bonds with an average maturity of 8.4 years.

- In accordance with the decision made by the European Commission, in recent months the Dexia Crédit Local group stepped up its programme to reduce its balance sheet. It sold a total of EUR 24 billion of non-strategic bonds and loans (including EUR 3 billion to other Dexia group companies), with a negative effect of EUR 508 million on the income statement (including negative EUR 302 million in respect of internal transfers). At the end of 2009, total assets sold amounted to EUR 13.4 billion. Following the sale of FSA Holdings Ltd. in July 2009 and Crédit du Nord in December 2009, further participating interests, notably Dexia Épargne Pension, were sold in 2010.

- The Dexia group has retained FSA's Financial products business, entrusting run-off management of this business to Dexia FP Services LLC. This business benefits from a guarantee from the Belgian and French governments over and above an initial loss of USD 4.5 billion: Dexia Holdings Inc. recorded a charge of USD 145.1 million in 2010 (EUR 109.8 million) in respect of the remuneration on this guarantee (EUR 61 million in 2009). The Financial products portfolio has been written down by USD 2,687 million, including a charge of USD 609 million (EUR 460 million) in the 2010 income statement.

- Unrealised and deferred gains and losses on available-for-sale securities deteriorated significantly: Group share, after tax, came to a loss of EUR 6,068 million at 31 December 2010 compared with a loss of EUR 5,113 million at 31 December 2009, reflecting the widening of spreads for sovereigns and local authorities during the year.

- On 11 November 2010, in compliance with the Dexia Group's strategic divestment plan, Dexia Kommunalkredit Bank (a wholly-owned subsidiary of Dexia SA, via Dexia Crédit Local) entered into an agreement to sell its Dexia banka Slovensko subsidiary to Penta Investments Ltd. Given the uncertainties as at 31 December 2010 surrounding the conditions for implementation of this agreement (Ritro litigation, authorisations, etc.), it was decided to continue to fully consolidate Dexia banka Slovensko as at 31 December 2010. Dexia banka Slovensko was also valued for provisioning purposes on the basis of its long-term value (EUR 82 million), resulting in an impairment charge of EUR 3 million in compliance with IAS 36 Impairment of Assets.

1.2. Scope of the Dexia Crédit Local Group as at 31 December 2010

DEXIA CRÉDIT LOCAL

BRANCHES:

- Dexia Crédit Local Canada branch
- Dexia Crédit Local Dublin branch
- Dexia Crédit Local Grand Cayman branch
- Dexia Public Finance Bank (London branch)
- Dexia Credit Local Bank Tokyo branch
- Dexia Crédit Local New York branch

FRENCH SUBSIDIARIES

- DEXIA CLF BANQUE 100%
- DEXIA FLOBAIL 100%
- DEXIA CLF RÉGIONS BAIL 100%
- CLF IMMOBILIER(2) 100%
- DEXIA SOFAXIS 100%
- SISL (Luxembourg) 100%
- DEXIA LOCATION LONGUE DURÉE 49%
- DEXIA BAIL 100%
- DEXIA MUNICIPAL AGENCY 100%
  - DEXIA MUNICIPAL AGENCY (Dublin branch)
- SARL CBX.IA 1 100%
- SARL CBX.IA 2 100%
- DOMISERVE 50%
  - DOMISERVE + 100%

INTERNATIONAL SUBSIDIARIES

- DEXIA KOMMUNALBANK DEUTSCHLAND (Germany) 100%
- DEXIA KOMMUNALKREDIT BANK (Austria) 100%
  - DEXIA BANKA SLOVENSKO (Slovakia) 88.71%
  - DEXIA KOMMUNALKREDIT BANK POLSKA (Poland) 100%
- DEXIA CREDIOP GROUP (Italy) 70%
  - DEXIA CREDIOP IRELAND (Ireland) 100%
- DEXIA HOLDINGS Inc. (United States)(1) 90%
  - DEXIA FP HOLDINGS Inc. (United States) 100%
  - GLOBAL FUNDING (United States) 100%
  - DEXIA REAL ESTATE CAPITAL MARKETS (United States) 100%
- DEXIA CREDITO LOCAL MÉXICO SA de CV (Mexico) 100%
- DEXIA ISRAEL BANK Ltd. (Israel) 65.31%
- DEXIA SABADELL SA (Spain) 60%
  - DEXIA SABADELL, SA (Portugal branch)
- DEXIA DELAWARE LLC (United States) 100%
- DEXIA CREDIT LOCAL ASIA PACIFIC Pty (Australia) 100%
- DEXIA CAD FUNDING LLC (United States) 100%
- CHUO MITSUI ASSET TRUST & BANKING COMPANY, Ltd. (Japan) 100%

Fully consolidated (solid box)

Proportionally consolidated (dotted box: DOMISERVE, DOMISERVE +)

(1) The remaining 10% is owned by Dexia SA.
(2) Ex-Dexia CLF Immo.

a. Fully-consolidated subsidiaries

Name	Head office	% interest
Dexia CLF Banque	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92 913 La Défense – France	100
CLF Immobilier	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92 913 La Défense – France	100
Dexia CLF Régions Bail	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92 913 La Défense – France	100
Dexia Kommunalbank Deutschland AG	Charlottenstrasse 82 - D - 10969 Berlin – Germany	100
Dexia Crediop	Via Venti Settembre 30, 00187 Rome – Italy	70
Dexia Flobail	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92 913 La Défense – France	100
SISL	180 rue des Aubépines L1145 – Luxembourg	100
Crediop Overseas Bank Ltd.(1)	P.O. Box 707 G- 1446 West Bay Road -Grand Cayman – British West Indies	100
Dexia Crediop per la Cartolarizzazione(1)	Via Venti Settembre 30 – 00187 Rome, Italy	100
Dexia Crediop Ireland(1)	6 George's Dock IFSC Dublin 1 – Ireland	100
Tevere Finance S.r.l. (1)	Via Eleonora Duse, 53 - 00197 Rome – Italy	100
Crediop per le Obbligazioni Bancarie Garantite S.r.l.(1)	Via Eleonora Duse, 53 - 00197 Rome – Italy	90
Dexia Kommunalkredit Bank AG	Fischhof 3, A-1010 Vienna – Austria	100
Dexia banka Slovensko(2)	Hodzova ul. 11 010 11, Zilina – Slovakia	88.71
Dexia Kommunalkredit Bank Polska(2)	ul. Sienna 39 – 00-121 Warsaw – Poland	100
Dexia Sofaxis	Route de Créton 18110 Vasselay – France	99.98
SNC SOFCAH (3)	Route de Créton 18110 Vasselay – France	99.98
SNC SOFCAP (3)	Route de Créton 18110 Vasselay – France	99.98
SARL DS Formation France (3)	Route de Créton 18110 Vasselay – France	99.98
SNC SOFIM (3)	Route de Créton 18110 Vasselay – France	99.98
SA Dexia DS Services (3)	Route de Créton 18110 Vasselay – France	100
SA Publiservices (3)	Route de Créton 18110 Vasselay – France	100
Dexia Location Longue Durée (4)	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92 913 La Défense – France	49
Dexia Bail	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92 913 La Défense – France	99.91
Dexia Municipal Agency	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92 913 La Défense – France	100
Dexia Israël Bank Ltd. (5)	19 Ha'arbaa str., Hatichon Tower, Tel Aviv 64739 – Israel	65.31
Dexia Sabadell SA	Paseo de las doce Estrellas, 4 Campo de las Naciones 28042 Madrid – Spain	60
CBX.IA 1	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92 913 La Défense – France	100
CBX.IA 2 (6)	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92 913 La Défense – France	100
Dexia Crédit Local Asia Pacific Pty Ltd.	Level 23, Veritas House, 207 Kent Street Sydney NSW 2000 – Australia	100
Dexia Delaware LLC	15, East North Street, Dover, Delaware 19901 – USA	100

(1) Companies consolidated by Dexia Crediop.
(2) Companies consolidated by Dexia Kommunalkredit Bank AG.
(3) Companies consolidated by Dexia Sofaxis.
(4) Dexia Location Longue Durée is fully consolidated due to the contractually-defined relationships existing between the shareholders.
(5) 65.99% of voting rights held.
(6) CBX.IA 2 is 70.85%-owned by Dexia Crédit Local and 29.15% by CBX.IA 1.

Name	Head office	% interest
Dexia Crédito Local México SA de CV Sofom Filial	Protasio Tagle 104 Colonia San Miguel Chapultepec – 11850 Mexico D.F.	100
Dexia México Servicios SA de CV(11)	Protasio Tagle 104 Colonia San Miguel Chapultepec – 11850 Mexico D.F.	100
Dexia Holdings Inc.(10)	445 Park Avenue, 5th floor, 10022 New York – USA	90
Dexia FP Holdings Inc.(7)	445 Park Avenue, 5th floor, 10022 New York – USA	100
Dexia Financial Products Services LLC (ex HF Services LLC)(8)	445 Park Avenue, 5th floor, 10022 New York – USA	100
FSA Asset Management LLC(8)	445 Park Avenue, 5th floor, 10022 New York – USA	100
FSA Portfolio Asset Ltd. (UK)(8)	Shackleton House 4 Battle Bridge Lane London SE1 2RB – UK	100
FSA Capital Markets Services LLC(8)	445 Park Avenue, 5th floor, 10022 New York – USA	100
FSA Capital Management Services LLC(8)	445 Park Avenue, 5th floor, 10022 New York – USA	100
FSA Global Funding Ltd.(7)	P.O. Box 1093 GT, Boundary Hall, Cricket square, Grand Cayman, Cayman Islands, KY1 -1102, Cayman Islands	100
Premier International Funding Co(9)	P.O. Box 1093 GT, Boundary Hall, Cricket square, Grand Cayman, Cayman Islands, KY1 -1102, Cayman Islands	0
FSA Capital Markets Services (Caymans) Ltd.(8)	P.O. Box 1093 GT, Boundary Hall, Cricket square, Grand Cayman, Cayman Islands, KY1 -1102, Cayman Islands	0
Dexia CAD funding LLC	445 Park Avenue, 7th floor, 10022 New York – USA	100
Cypress Point Funding Limited (Cayman)(9)	P.O. Box 1093 GT, Boundary Hall, Cricket square, Grand Cayman, Cayman Islands, KY1 -1102, Cayman Islands	23
Dexia Real Estate Capital Markets(7)	1180 NW Maple St., Suite 202, Issaquah, WA 98027 – USA	100
Chuo Mitsui Asset Trust and Banking Company Ltd.	3-23-1, Shiba, Minato-ku, Tokyo – Japan	100

(7) Companies consolidated by Dexia Holdings Inc.
(8) Companies consolidated by Dexia FP Holdings Inc.
(9) Companies consolidated by FSA Global Funding Ltd.
(10) The remaining 10% is owned by Dexia SA.
(11) Company consolidated by Dexia Crédito Local Mexico SA de CV.

b. Non-consolidated subsidiaries

Name	Head office	% interest	Carrying amount of shares including fair-value adjustment (EUR thousands)	Reason for exclusion
CLF Marne La Vallée Participation	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense – France	99.94	80	Below materiality threshold
Dexia Éditions	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense – France	99.98	822	Below materiality threshold
CBX. GEST	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense – France	99.94	674	Below materiality threshold
Dexint Développement	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense – France	99.89	42	Below materiality threshold
Compagnie pour le Foncier et l'Habitat	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense – France	100	3,049	Below materiality threshold
Dexia Global Structured Finance	445 Park Avenue, New York 10022 – USA	100	560	Below materiality threshold
Guide Pratique de la Décentralisation	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense – France	99.74	56	Below materiality threshold
Dexia Kommunalkredit Bulgaria	19 Karnigradska Sofia 1000 – Bulgaria	100	496	Below materiality threshold
Dexia Kommunalkredit Romania	Str. Faragas nr 21 Sector 1, 010897 Bucharest – Roumania	100	290	Below materiality threshold
Municipalia	Hodzova 11, 010 11 Zilina – Slovakia	60	20	Below materiality threshold
Dexia Kommunalkredit Hungary	Horvat u. 14-24 – 1027 Budapest – Hungary	100	354	Below materiality threshold
Dexia Kommunalkredit Adriatic	Radnicka cesta 80 HR – 10000 Zagreb – Croatia	100	341	Below materiality threshold
Dexia CLF Avenir	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense – France	99.85	61	Below materiality threshold
Dexia CLF Développement	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense – France	99.83	58	Below materiality threshold
Dexia CLF Organisation	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense – France	99.89	42	Below materiality threshold
Genebus Lease	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense – France	99.89	56	Below materiality threshold
SISL UKCO Limited	One Skill street London EC2Y 8HQ – UK	100	13	Below materiality threshold
DCL Investissements	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense – France	100	36	Below materiality threshold
DCL Projets	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense – France	100	36	Below materiality threshold
Dexiarail	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense – France	100	40	Below materiality threshold
Dexia Carbon Fund I	69 route d'Esch L 1470 Luxembourg	70	6,154	Below materiality threshold
Dexia Carbon Fund Managers	69 route d'Esch L 1470 Luxembourg	100	132	Below materiality threshold
SAS Qualnet	Route de Créton 18110 Vasselay – France	64.98	1,487	Below materiality threshold

Name	Head office	% interest	Carrying amount of shares including fair-value adjustment (EUR thousands)	Reason for exclusion
Dexia Habitat	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense – France	100	4,027	Below materiality threshold
Dexia Public Finance Switzerland SA	Rue de Jargonnant 2 - CH 1207 Geneva – Switzerland	100	3,707	Below materiality threshold
Floral	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense – France	100	363	Below materiality threshold
Dexia Kommunalkredit Czech Republic	Wratislav Palace, Trziste 13, 11800 Prague Czech Republic	100	0	Below materiality threshold
European Carbon fund	12 av de la Liberté L 1930 Luxembourg	55	1,348	Below materiality threshold
Dexia Management Services Limited	Shackleton House, 4 Battle bridge Lane, London SE1 2RB – UK	100	1,234	Below materiality threshold

c. Jointly-owned companies consolidated by the proportional method

Name	Head office	% interest
Domiserve	6 rue André Gide 92320 Châtillon – France	50
Domiserve +	6 rue André Gide 92320 Châtillon – France	50

d. Jointly-owned companies not consolidated by the proportional method

None.

e. Associated companies accounted for by the equity method

None.

f. Associated companies not accounted for by the equity method

Name	Head office	% interest	Carrying amount of shares including fair-value adjustment (EUR thousands)	Reason for exclusion
Le Monde Investisseurs	80, bd Auguste Blanqui 75013 Paris – France	35.75	1,767	Below materiality threshold
Istituto per il Credito Sportivo	Via Alessandro Farnese 1 – 00192 Rome – Italy	21.62	24,658	Below materiality threshold
SPS – Sistema Permanente di Servizi Scpa in liquidazione e concordato preventivo	Via Livorno 36 – 00162 Rome – Italy	20.4	0	Below materiality threshold
SNC du Chapitre	72, rue riquet – 31000 Toulouse – France	50	4	Below materiality threshold
Dexia Fondelec Energy Efficiency and Emissions Reduction Fund	Walker House P.O. Box 265 GT George Town Grand Cayman Cayman Islands, British West Indies	28.2	7,223	Below materiality threshold
Impax New Energy Investor	67 rue Ermesinde L – 1469 Luxembourg	24.99	15,330	Below materiality threshold
European Public Infrastructure Managers	4, rue Jean-Pierre Brasseur – 1258 Luxembourg	20.5	3	Below materiality threshold
SAS THEMIS	1 av Eugène Freyssinet – 78280 Guyancourt – France	40.5	798	Below materiality threshold
La Cité	35 rue de la Gare – 75019 Paris – France	25.5	58	Below materiality threshold
Exterimmo	104 avenue de France – 75646 Paris Cedex 13 – France	40	20,000	Below materiality threshold

g. Companies which are neither consolidated nor accounted for by the equity method in which the Group has at least a 10% stake and whose carrying amount is over EUR 10 million

None.

1.3. Accounting policies and valuation methods

a. Applicable accounting standards

Application of IFRS rules adopted by the European Commission (IFRS EU)

The European Commission issued Regulation EC 1606/2002 on 19 July 2002 requiring listed groups to apply IFRS as from 1 January 2005. This regulation has been updated several times since 2002. Dexia Crédit Local's financial statements have therefore been prepared in accordance with all IFRS as adopted and endorsed by the European Commission up to 31 December 2010, including the conditions of application for interest rate portfolio hedging and the possibility to hedge core deposits.

The consolidated financial statements are expressed in millions of euros (EUR) unless stated otherwise. They are compliant with CNC Recommendation 2009-R.04 issued on 2 July 2009.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect amounts reported. In order to make these assumptions and estimates, management uses the information available at the date of preparation of the financial statements and exercises its judgment. While management believes it has considered all available information when making these assumptions, actual results may differ from such estimates and the differences may have a material impact on the consolidated financial statements.

Judgments are principally made in the following areas:

- classification of financial instruments;
- determination of whether or not there is an active market;
- consolidation (control, including special-purpose entities);
- identification of non-current assets and disposal groups held for sale and discontinued operations;

- hedge accounting;
- existence of a present obligation with probable outflows in the context of litigation;
- identification of impairment triggers.

These judgments are set out in the corresponding sections of the accounting policies

Estimates are principally made in the following areas:

- determination of the recoverable amount of impaired financial assets;
- determination of the useful life and residual value of property, plant and equipment, investment property and intangible assets;
- estimate of future taxable profit for the measurement of deferred tax assets;
- estimate of the recoverable amount of cash-generating units for goodwill impairment.

b. Changes in accounting rules since the previous annual publication that may impact the Dexia Crédit Local group

The overview below is based on the situation as at the reporting date of 31 December 2010.

IFRIC and IASB texts endorsed by the European Commission and applied as from 1 January 2010

The following standards, interpretations and amendments have been endorsed by the European Commission and are applied as from 1 January 2010:

- Annual Improvements made in 2009 to IFRS and IAS, a series of amendments to IFRS applied as from 1 January 2010. The revision of these standards has no impact on the financial statements of Dexia Crédit Local.
- Amendments to IFRS 2 Share-based Payments, Group Cash-settled Share-based Payment Transactions, applied as from 1 January 2010. These amendments aim to clarify the scope of application of IFRS 2 and have no impact on the financial statements of Dexia Crédit Local.
- Revised IFRS 1 First-Time Adoption of International Financial Reporting Standards, which replaces the standard issued in June 2003. This text is applied as from 1 January 2010. The revision of this standard has no impact on the financial statements of Dexia Crédit Local, which is no longer a first-time adopter of IFRS.
- Amendments to IFRS 1 First-Time Adoption of International Financial Reporting Standards, Additional Exemptions for First-time Adopters, applied as from 1 January 2010. The revision of this standard has no impact on the financial statements of Dexia Crédit Local, which is no longer a first-time adopter of IFRS.
- Revised IFRS 3 Business Combinations, which is applied as from 1 January 2010. The main changes relate to acquisition-related costs, step acquisitions, non-controlling interests in an acquired entity and the treatment of contingent consideration. There is no impact for Dexia Crédit Local because there have been no new business combinations since 1 January 2010.
- Revised IAS 27 Consolidated and Separate Financial Statements, applied as from 1 January 2010. The main changes introduced by the revision of this standard are linked to the changes in a parent's controlling ownership of a subsidiary. This text is closely related to the revision of IFRS 3 Business Combinations. There is no impact for Dexia Crédit Local because there have been no new business combinations since 1 January 2010.
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items, which is applied as from 1 January 2010. This amendment has no impact on the financial statements of Dexia Crédit Local.
- Amendment to IFRS 5 Non-current Assets held for Sale and Discontinued Operations, forming part of the improvements made to IFRS, which is applied as from 1 January 2010. There is no impact for Dexia Crédit Local.
- IFRIC 12 Service Concession Arrangements, which is applied as from 1 January 2010, but has no impact on the financial statements of Dexia Crédit Local.
- IFRIC 15 Agreements for the Construction of Real Estate, applied as from 1 January 2010. This interpretation has no impact on the financial statements of Dexia Crédit Local.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation, which is applied as from 1 January 2010, and has no impact on the financial statements of Dexia Crédit Local.
- IFRIC 17 Distributions of Non-Cash Assets to Owners, applied as from 1 January 2010. This interpretation has no impact on Dexia Crédit Local.
- IFRIC 18 Transfers of Assets from Customers, applied as from 1 January 2010. This interpretation has no impact on Dexia Crédit Local.

IASB and IFRIC texts endorsed by the european commission during the current year but not yet applicable as from 1 january 2010

- Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, applicable as from 1 January 2011. This amendment will have no impact on Dexia Crédit Local, which is no longer a first-time adopter.
- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement, applicable as from 1 January 2011. This amendment will not impact Dexia Crédit Local.
- IAS 24 Related Party Disclosures, applicable as from 1 January 2011. This standard supersedes IAS 24 Related Party Disclosures (as revised in 2003). This amendment will not impact Dexia Crédit Local.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, applicable as from 1 January 2011. This interpretation has no impact on Dexia Crédit Local.

New standards (IFRS), Interpretations (IFRIC) and amendments issued during the current year but not yet endorsed by the european commission

- Improvements to IFRS (issued by the IASB in May 2010), which are a collection of amendments to existing International Financial Reporting Standards. These amendments are effective as from 1 January 2011 and the impact on Dexia Crédit Local's financial statements is currently being assessed.

- Amendment to IFRS 7 Disclosures - Transfers of Financial Assets (issued by the IASB in October 2010), which introduces new disclosure requirements on transfers of financial assets. This amendment is effective as from 1 January 2012 and the impact on Dexia Crédit Local is currently being assessed.

- Amendment to IAS 12 Deferred Tax: Recovery of Underlying Assets (issued by the IASB in December 2010). This amendment is effective as from 1 January 2012 and has no impact on Dexia Crédit Local as the Group measures these assets at amortised cost.

c. Accounting policies applied to consolidated financial statements

Consolidation

Subsidiaries and business combinations

Subsidiaries are those entities over which Dexia Crédit Local has the power to exercise control, directly or indirectly, over financial and operating policies.

Subsidiaries are fully consolidated from the date on which effective control is transferred to Dexia Crédit Local and are no longer consolidated as from the date on which Dexia Crédit Local loses significant influence over such subsidiary. Intercompany transactions, balances and unrealised gains and losses on transactions between Dexia Crédit Local's companies are eliminated. When necessary, adjustments are made to ensure consistency with the policies applied by Dexia Crédit Local.

Changes in Dexia Crédit Local's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions.

Dexia Crédit Local decides on a transaction-by-transaction basis to measure non-controlling interests either at fair value or at their proportional interest in the net assets of the acquiree. Equity and net income attributable to non-controlling interests are shown in a separate line on the balance sheet and income statement respectively.

Jointly controlled entities

A joint venture (JV) is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures are accounted for by the proportional consolidation method. In the consolidated financial statements, joint ventures are integrated according to the percentage interest in their assets, liabilities, income and expenses.

The consolidation treatment used for intercompany transactions is the same as that applied to subsidiaries.

Associates

Investments in associates are initially measured at cost and accounted for using the equity method. Associates are investments in which Dexia Crédit Local has significant influence, but does not exercise control. This is usually the case when Dexia Crédit Local owns between 20% and 50% of the voting rights. The ownership share of net income for the year is recognised as income from associates, while the share in other comprehensive income of associates is carried on a separate line of the statement of comprehensive income and the investment is recorded on the balance sheet at an amount that reflects its share of the net assets including net goodwill. Gains on transactions between Dexia Crédit Local and its associates are eliminated to the extent of Dexia Crédit Local's interest. The recognition of losses from associates is discontinued when the carrying amount of the investment reaches zero, unless Dexia Crédit Local has incurred or guaranteed legal or constructive obligations in respect of the associates' undertakings. Where necessary, the accounting policies of the associates have been amended to ensure consistency with the policies adopted by Dexia Crédit Local.

Special purpose entities (SPEs)

A special-purpose entity (SPE) shall be consolidated when the substance of the relationship between Dexia Crédit Local and the SPE indicates that the SPE is controlled by Dexia Crédit Local. Control may arise through the structuring of the activities of the SPE. The following circumstances may indicate a relationship in which Dexia Crédit Local controls an SPE and consequently should consolidate the SPE:

- the SPE's activities are being conducted on behalf of Dexia Crédit Local according to its specific business needs;

- Dexia Crédit Local has decision-making powers or has delegated these powers to obtain the majority of the benefits of the SPE's activities;

- Dexia Crédit Local is entitled to obtain the majority of the benefits of the SPE and, as a result, may be exposed to the risks associated with the SPE's activities;

- Dexia Crédit Local retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

Offsetting financial assets and financial liabilities

In certain circumstances, financial assets and financial liabilities are offset and the net amount reported on the balance sheet. This may happen when there is a legally enforceable right to set off the recognised amounts and there is an intention that expected future cash flows will be settled on a net basis or that the asset will be realised and the liability settled simultaneously.

Foreign currency translation and transactions

Foreign currency translation

On consolidation, the income statements and cash flow statements of foreign entities whose functional currency differs from Dexia Crédit Local's presentation currency are translated into Dexia Crédit Local's presentation currency (euro) at average exchange rates for the year or the period and their assets and liabilities are translated at the year-end or period-end exchange rates.

Exchange differences arising from the translation of the net investment in foreign subsidiaries, associates and joint ventures and of foreign currency borrowings and other currency instruments designated as hedges of such investments are recorded as cumulative translation adjustments within shareholders' equity. On disposal of a foreign entity, such exchange differences are recognised in the income statement.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

Foreign currency transactions

For individual Dexia Crédit Local entities, foreign currency transactions are accounted for using the exchange rate on the transaction date. Outstanding balances denominated in foreign currencies at the period or year end are translated at period-end or year-end rates for monetary items and non-monetary items carried at fair value. Historical rates are used for non-monetary items carried at cost. The resulting exchange differences from monetary items are recorded in the consolidated income statement, except for the foreign exchange impact related to fair value adjustments on available-for-sale bonds, which are recognised in equity. For non-monetary items carried at fair value, the exchange differences follow the same accounting treatment as for fair value adjustments.

Financial assets and liabilities

Management determines the appropriate classification of its investments at initial recognition. However, under certain conditions, financial assets could be subsequently reclassified.

Interbank and customer loans and advances

IFRS define loans as non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than:

- those that the entity intends to sell immediately or in the near term, which are classified as held for trading, and those that the entity, upon initial recognition, designates as being at fair value through profit or loss;
- those that the entity, upon initial recognition, designates as available for sale; and
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Dexia Crédit Local recognises interest-bearing loans and advances initially at fair value plus transaction costs and subsequently at amortised cost, less any allowance for impairment. Interest is recognised based on the effective interest rate method and reported as net interest income.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

Available-for-sale financial assets

Assets intended to be held for an indefinite period of time and which may be sold in response to a need for liquidity or changes in interest rates, exchange rates or equity prices are classified as available for sale (AFS).

Available-for-sale assets are initially recognised at fair value plus transaction costs. Interest is recognised based on the effective interest rate method and is recognised within net interest income. Dividend income from variable-income securities is recognised in "Net gains (losses) on available-for-sale financial assets" when the Group's right to receive payment is established.

Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised within equity. When assets are disposed of, the related accumulated fair value adjustments are included in the income statement as "Net gains (losses) on available-for-sale financial assets".

Held-to-maturity financial assets

Securities with fixed maturity are classified as Held-to-maturity financial assets (HTM) when management has both the intent and the ability to hold the assets to maturity.

Held-to-maturity assets are initially recognised at fair value plus transaction costs and subsequently at amortised cost, less any allowance for impairment. Interest is recognised based on the effective interest rate method using the rate determined at initial recognition and is recognised within net interest income.

Held-for-trading financial assets

Held-for-trading assets are assets acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are assets included in a portfolio for which a pattern of short-term profit taking exists. Held-for-trading assets are initially recognised at fair value and subsequently re-measured at fair value. All related realised and unrealised gains and losses are included in "Net gains (losses) on financial instruments at fair value through profit or loss". Interest earned while holding held-for-trading assets is reported using the effective interest rate method under interest income. Dividends received are recognised in "Net gains (losses) on financial instruments at fair value through profit or loss".

All purchases and sales of held-for-trading assets that require delivery within timeframes established by regulations or market convention ("regular way" purchases and sales) are recognised on the trade date. Other trading transactions are treated as derivatives until settlement occurs (see also paragraph "Trade date and settlement date accounting").

Held-for-trading liabilities

Held-for-trading liabilities follow the same accounting rules as those for held-for-trading financial assets, except that initial recognition is done at settlement date.

Financial assets designated at fair value through profit or loss (FV Option)

Loans and securities designated at fair value through profit or loss follow the same accounting rules as those for held-for-trading loans and securities, except for trade date and settlement date accounting (see also paragraph "Trade date and settlement date accounting").

Under IAS 39, a financial asset or group of financial assets can be designated as "at fair value through profit or loss" when:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- an instrument contains an embedded derivative:
  - that significantly modifies the cash flows that would otherwise be required by the contract; or
  - for which it is not clear without an in-depth analysis that separation of the embedded derivative is prohibited.

Use of the fair value option is a choice that should be made for a given financial instrument, at initial recognition and when certain documentation conditions are fulfilled.

Liabilities designated at fair value through profit or loss (FV Option)

The accounting principles for financial liabilities designated at fair value through profit or loss are the same as those used for financial assets, except that the initial recognition is done at settlement date (refer to paragraph "Trade date and settlement date accounting").

Derivatives – trading portfolio

When a derivative is not designated in a hedge relationship, it is deemed to be held for trading. Derivative financial instruments generally include foreign exchange contracts, currency and interest rate futures, forward rate agreements, currency and interest rate swaps and currency and interest rate options (both written and purchased). All derivatives are initially recognised on the balance sheet at fair value and are subsequently re-measured at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The amount reported on the balance sheet includes the premium paid/received net of amortisation, fair value adjustments and accrued interest, the sum of all these elements representing the fair value of the derivative. Derivatives are reported as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when:

- their risks and characteristics are not closely related to those of the host contract;
- the hybrid contract is not carried at fair value with unrealised gains and losses reported in the income statement.

Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. They are subsequently stated at amortised cost and any difference between their initial carrying amount and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Trade date and settlement date accounting

Held-for-trading financial assets are recognised and derecognised at trade date. For these assets, Dexia Crédit Local recognises from the trade date in "Net income on financial instruments at fair value through profit or loss" any unrealised gains or losses arising from revaluing the contract to fair value at the reporting date.

All other "regular way" purchases and sales of financial instruments are recognised on the settlement date, which is the date on which a financial asset or a financial liability is delivered to or by Dexia Crédit Local.

Impairment of financial assets

Dexia Crédit Local records allowances for impairment losses when there is objective evidence that a financial asset or group of financial assets is impaired, as a result of one or more events occurring since initial recognition and when that loss event has an impact on the estimated future cash flows that can be reliably estimated, in accordance with IAS 39 (sections 58-70). The impairment represents management's best estimate of losses in the value of the asset or assets at each balance-sheet date.

Financial assets valued at amortised cost

Dexia Crédit Local first assesses whether objective evidence of impairment exists for a financial asset when taken individually. If no such evidence exists, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment

- Determination of impairment
  - **Specific impairment:** if there is objective evidence that loans or other receivables, or financial assets classified as held-to-maturity, are impaired, the amount of the provision is calculated as the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, net of any guarantees and collateral, discounted at the financial instrument's original effective interest rate (except for reclassified assets, see below).
    When an asset is assessed as being impaired, it will be excluded from the portfolio on which a collective impairment is calculated.
  - **Collective impairment:** collective impairment covers the risk of loss in value not covered by specific impairment where there is objective evidence that probable losses are present in certain segments of the portfolio or other lending-related commitments at the balance-sheet date. These losses are estimated based upon historical patterns of losses in each segment and the current economic environment in which the borrowers operate. For this purpose, Dexia Crédit Local has developed credit risk models using an approach that combines default probabilities and losses given default. These models are subject to regular back-testing and is based on Basel II data and risk models, consistent with the incurred loss model.

- Accounting treatment of impairment
  Changes in the amount of impairment losses are recognised in the income statement in "Cost of risk". Once an asset has been written down, if the amount of the impairment subsequently decreases due to an event occurring after recognition of the impairment, the write-back of the impairment is credited to "Cost of risk".
  When an asset is determined by management as being irrecoverable, the outstanding specific impairment is reversed via the income statement in "Cost of risk" and the net loss is recorded in the same heading. Subsequent recoveries are also accounted for in this heading.

Reclassified financial assets
Regarding impairment, reclassified financial assets follow the same rules as financial assets initially valued at amortised cost for calculation of the impairment. If there is objective evidence that reclassified financial assets are impaired, the amount of the impairment on reclassified assets is calculated as the difference between the net carrying amount of the asset, excluding the amount of revaluations at fair value due to former classification in AFS, and the net present value of the expected cash flows discounted at the effective interest rate at the time of reclassification. Any existing unamortised AFS reserve will be taken to profit or loss in "Cost of risk".

In the event that of a positive update to expected cash flows, the impairment amount is reversed through net interest income over the new schedule of expected cash flows, not by a reversal of impairment.

Available-for-sale financial assets
Impairment of available-for-sale assets is recognised on an individual basis if there is objective evidence of impairment as a result of one or more events occurring since initial recognition of the asset. Available-for-sale assets are subject only to specific impairment.

- Determination of impairment
  - **Equities:** for equities quoted in an active market, a significant decline in their price compared to the acquisition price (more than 50%) or a prolonged decline (during a period of more than five years) is considered as objective evidence of impairment. In addition, management can decide to recognise impairment losses whenever other objective evidence is available.
  - **Interest-bearing debt instruments:** in the case of interest-bearing debt instruments, impairment is triggered based on the same criteria as those applied to financial assets valued at amortised cost (see above).

- Accounting treatment of impairment
  When available-for-sale financial assets are impaired, the total AFS reserve is recycled into profit or loss and Dexia Crédit Local reports these impairment losses in the income statement in "Cost of risk" (for available-for-sale financial assets with fixed income) or "Net gains (losses) on available-for-sale financial assets" (for available-for-sale financial assets with variable income). Any subsequent decline in fair value constitutes an additional impairment loss, recognised in the income statement.
  Impairment of equity instruments cannot be reversed in the income statement due to a subsequent increase in the quoted price.
  In the event of an increase in the fair value of an interest-bearing financial instrument that relates objectively to an event occurring after the last impairment was recognised, Dexia Crédit Local recognises a reversal of the impairment loss in the income statement in "Cost of risk" (for available-for-sale financial assets with fixed income).
  Please refer to the note on Credit Risk for more information on how credit risk is managed by Dexia Crédit Local.

Off-balance sheet commitments
Off-balance sheet commitments such as credit substitutes (e.g.: guarantees and standby letters of credit) and loan commitments are usually converted into on-balance sheet items when called. However, under certain circumstances, such as uncertainty about the counterparty's creditworthiness, the off-balance sheet commitment should be regarded as impaired. Loan commitments should be classified as impaired if the client's creditworthiness has deteriorated to an extent that makes repayment of any loan and associated interest payments doubtful.

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Market prices are used to determine fair value where an active market (such as a recognised Exchange) exists, as these are the best estimate of the fair value of a financial instrument. Active market prices are not, however, available for a significant number of the financial assets and liabilities held or issued by Dexia Crédit Local.

If the financial instrument is not traded on an active market, valuation techniques are used. Valuation techniques include the use of data from recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, and valuation models. A valuation model reflects what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations, i.e. the price that would be received by the holder of the financial asset in an orderly transaction that is not a forced liquidation or forced sale.

The valuation model should attempt to take into account all the factors that market participants would consider when pricing the asset. In this context, Dexia Crédit Local uses its own valuation models and market assumptions, i.e. present value of cash flows or any other techniques based on market conditions existing at the balance-sheet date.

Financial instruments measured at fair value (held for trading, FVO, AFS, derivatives)
Financial instruments classified as held for trading, available for sale, or designated at fair value through profit or loss, derivatives and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available. When quoted market prices are not available, fair values are estimated on the basis of pricing models or discounted cash flows using either observable and/or unobservable market data.

For assets and liabilities classified as available for sale (AFS) or designated at fair value through profit or loss, when quoted prices are not available, the pricing models try to reflect as accurately as possible the market conditions on the valuation date as well as changes in the credit risk quality of the financial instruments and the market liquidity.

Financial instruments measured at amortised cost (valuations in IFRS notes on fair value)

The following comments are applicable to the fair value of loans and advances presented in the notes:

- the fair value of fixed-rate loans and mortgages is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans;

- caps, floors and early repayment options are included when determining the fair value of loans and advances.

Realised gains and losses on the sale of financial assets

For financial assets not revalued through the income statement, realised gains and losses on disposal are the differences between the proceeds received (net of transaction costs) and the cost or amortised cost of the investment. The cost is systematically determined using the "First In, First Out" (FIFO method) on a portfolio basis. When an available-for-sale financial asset is sold, the total gains or losses recognised earlier in equity are reclassified in the income statement.

Accounting for early repayment penalties

Dexia Crédit Local has determined the accounting principles applicable to the restructuring of loans in accordance with AG 62 of IAS 39 dealing with the restructuring of financial liabilities.

There are several possibilities for accounting for early repayment penalties, depending on whether the early repayment is recognised as not being an extinguishment (with refinancing) or as an extinguishment (no refinancing).

Case of early repayment with refinancing

The method of accounting for early repayment penalties differs depending on whether the restructuring results in terms that are substantially different from those set initially.

In accordance with the principles of AG 62, Dexia Crédit Local considers that the terms are substantially different when the net present value of the cash flows under the new terms, including any fees paid net of any fees received, is at least 10% different from the net present value of the remaining cash flows from the original loan.

The early repayment penalty is recognised immediately in the income statement or else amortised over the remaining term of the modified loan depending on the results of the eligibility test. If the eligibility test is passed, i.e. the income statement difference is less than 10%, the early repayment indemnity is amortised over the remaining term of the new loan. Otherwise, i.e. the difference exceeds 10%, the early repayment penalty is recognised immediately in the income statement.

Case of early repayment without refinancing

When the loan has been extinguished, the early repayment penalty, as well as any gains or losses arising from an unamortised premium or discount, is recognised in the income statement as income for the period, as required by IFRS.

Interest income and expense

Interest income and expense are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective interest rate method based on initial carrying value including transaction costs for all financial instruments not valued at fair value.

Transaction costs are incremental costs that are directly attributable to the acquisition of a financial asset or liability and are reflected in the effective interest rate. An incremental cost is one that would not have been incurred if the entity had not acquired the financial instrument.

Accrued interest is reported in the same balance sheet line as the related financial asset or liability.

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

Fee and commission income and expense

Fees and commissions arising from most of Dexia Crédit Local's activities are recognised on an accrual basis over the life of the underlying transaction.

With regard to significant operations, e.g. negotiating or participating in the negotiation of a transaction on behalf of a third party, such as the arrangement of the acquisition of loans, equities or other securities or the purchase or sale of businesses, fees and commissions are recognised when the significant act has been completed.

For asset management operations, revenue consists principally of unit trust and mutual fund management and administration fees. Revenue from asset management is recognised as earned when the service is provided. Performance fees are recognised only when all underlying conditions are met and the income is thus earned.

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

Hedging derivatives

Hedging derivatives can be categorised as either:

- a hedge of the fair value of a recognised asset or liability or a firm commitment (fair value hedge);

- a hedge of a future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge); or

- a hedge of a net investment in a foreign operation (net investment hedge).

Hedge accounting may be used for derivatives designated in this way, provided certain criteria are met:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy used and relationship between the hedging instrument and the hedged item must be prepared before hedge accounting is applied,

- the hedge is documented showing that it is expected to be effective both prospectively and retrospectively in offsetting changes in fair value or cash flows attributable to the hedged risk on the hedged item throughout the reporting period,
- the hedge shall be effective at inception and on an ongoing basis.

Changes in the fair value of derivatives that are designated and documented in a fair value hedging relationship, and which comply with the criteria set out above, are recorded in the income statement, along with the corresponding changes in fair value of the hedged assets or liabilities that are attributable to that specific hedged risk.

If at any time the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to profit or loss over the residual maturity of the hedged item by adjusting the yield on the hedged item.

The effective portion of the changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be effective in relation to the hedged risk is recognised in equity as "Unrealised or deferred gains and losses" (see "Net income and unrealised or deferred gains and losses through equity").

The non-effective portion of the changes in the fair value of the derivatives is recognised in the income statement. Amounts deferred in equity are transferred to the income statement and classified as Income or expense in the periods during which the hedged firm commitment or forecast transaction affects the income statement.

Hedging of a portfolio's interest rate risk exposure

As explained above ("Application of IFRS rules adopted by the European Commission"), Dexia Crédit Local makes use of the provisions of IAS 39 as adopted by the European Union (IAS 39 carve-out) because it better reflects the way Dexia Crédit Local manages its financial instruments.

The objective of hedging relationships is to reduce the interest rate risk exposure stemming from the selected category of assets or liabilities designated as the qualifying hedged items.

The entity performs a global analysis of its interest rate risk exposure. This consists in assessing fixed-rate exposures generated by all fixed-rate balance sheet items. This global analysis may exclude certain components of the exposure, such as financial market activities, provided that the risk exposure stemming from the excluded activities is monitored on an activity-by-activity basis.

The entity selects assets and/or liabilities to be included in the hedge of a portfolio's interest rate risk exposure. The entity consistently applies the same methodology for selecting portfolio assets and liabilities. The financial assets and liabilities are classified by portfolio time bands. Hence, when they are removed from the portfolio, they must be removed from all the time bands on which they have an impact.

Demand deposits and savings accounts may be included in the portfolio based on behavioural studies for estimating expected maturity date. The entity may designate as qualifying hedged items different categories of assets or liabilities such as available-for-sale assets or loan portfolios.

Based on this gap analysis, which is realised on a net basis, Dexia Crédit Local defines at inception the risk exposure to be hedged, the length of the time bands and the manner and frequency of testing.

The hedging instruments are a portfolio of derivatives whose positions may be offsetting. The hedging items are recognised at their full fair value (including accrued interest expense or income), with adjustments being accounted for in the income statement.

Revaluations related to the hedged risk are recognised on the balance sheet as "Fair value revaluation of portfolio hedges".

Day one profit or loss

The day one profit or loss is applicable for all transactions measured at fair value through profit or loss.

The day one profit or loss is the difference between either:

- the transaction price and the quoted market price, if the transaction is carried out on a quoted market; or
- the transaction price and the adjusted fair value (internal valuation models with some market value adjustments, such as a liquidity adjustment, model adjustment and credit risk adjustment), if the transaction is not quoted.

If the parameters used in the valuation model are considered as observable and if the model is approved by the Risk Management department, the day one profit or loss is recognised immediately in profit or loss.

If the parameters are considered as not observable or if the model is not approved by the Risk Management department, the day one profit or loss is amortised on a straight line over the expected life of the transaction. However, if the data subsequently becomes observable, the remaining portion of day one profit or loss is recognised in profit or loss.

In the event of early termination, the remaining portion of day one profit or loss is recognised in profit or loss. In the event of partial early termination, the portion of day one profit or loss relating to the partial early termination is recognised in profit or loss.

Tangible assets

Tangible assets include office buildings, furnishings and equipment, and investment properties.

All office buildings, furnishings and equipment are initially stated at historical cost plus directly attributable expenses and related borrowing costs (such as foreign exchange losses, financial costs, etc.). After initial recognition, tangible assets are valued at their cost less accumulated depreciation and impairment, if applicable. Subsequent costs are included in the carrying amount of the asset or recognised as a separate component, where necessary, if it is probable that future economic benefits will flow to the Group and the cost of the asset can be reliably measured.

Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives.

The estimated useful lives for the main tangible assets are as follows:

- structure of the building: 50 years
- roof and frontage: 30 years
- technical installations: 10 to 30 years
- fixtures and fittings: 10 to 30 years
- leasehold improvements, equipment and furniture: 2 to 12 years
- computer equipment: 3 to 6 years
- vehicles: 2 to 5 years

An item of property and equipment can be composed of different parts with varying useful lives. In such a case, each part is depreciated separately over its estimated useful life.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and are therefore capitalised. Other borrowing costs are recognised as an expense.

Tangible assets are tested for impairment when an indication of loss of value exists. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. When the recoverable amount of an asset cannot be determined individually, the Group determines the recoverable amount of the cash-generating unit or group of cash-generating units to which the asset belongs. Gains and losses on disposals of property and equipment are determined by reference to their carrying amount and are included in "Net gains (losses) on other assets".

Investment properties are those properties held to earn rental income or for capital appreciation. Dexia Crédit Local may also partly use such investment properties for its own purposes.

If the "own use" portion can be sold separately or leased out separately under a finance lease, such portion is accounted for separately. If the "own use" portion cannot be sold separately, the property is classed as an investment property only if Dexia Crédit Local uses an insignificant portion for its own use.

Investment properties are recorded at acquisition cost less accumulated depreciation and impairment, if applicable. Investment properties are depreciated over their useful life on a straight-line basis.

Intangible assets

Intangible assets mainly consist of internally generated and acquired software. The costs associated with maintaining computer software are expensed as incurred. However, expenditure that enhances or extends the benefits of computer software by more than one year is capitalised, thereby increasing the original cost of the software. Computer software and related development costs recognised as assets are amortised using the straight-line method over their estimated useful lives from the time the software is available for use. This amortisation period is usually between three and five years.

Borrowing costs that are directly attributable to the acquisition or production of a qualifying asset form part of the cost of that asset and are therefore capitalised. Other borrowing costs are recognised as an expense.

Intangible assets (other than goodwill) are tested for impairment when an indication of loss of value exists. When the carrying amount of an intangible asset is greater than its estimated recoverable value, an impairment loss is recognised and the carrying amount of the asset is written down to its estimated recoverable value. Gains and losses on disposals of intangible assets are determined by reference to their carrying amount and are included in "Net gains (losses) on other assets" in the income statement.

Non-current assets held for sale and discontinued operations

Assets or groups of assets whose carrying amount will be recovered principally through a sale transaction, rather than through continuing use, are classified as non-current assets (or disposal groups) held for sale if:

- they are available for immediate sale in their present condition;
- their sale is highly probable within one year.

Dexia Crédit Local measures non-current assets (or disposal groups) classified as held for sale at the lower of their carrying amount and their fair value less costs to sell. Such assets are no longer depreciated from the time they qualify as assets (or disposal groups) held for sale. Non-current assets (or disposal groups) classified as held for sale are presented separately on the balance sheet.

Goodwill

Goodwill is as an asset representing the future economic benefits arising from other assets acquired in a business combination that cannot be individually identified and separately recognised.

It is measured as the difference between the aggregate of:

- (i) the acquisition-date fair value of the consideration transferred;
- (ii) the amount of any non-controlling interests;
- (iii) in a business combination achieved in stages, the acquisition-date fair value of Dexia Crédit Local's previously-held equity interests in the entity acquired;

and the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

Changes in the percentage of ownership in fully-consolidated companies are considered as transactions with shareholders. Therefore, neither fair value adjustments nor goodwill adjustments are made when percentage increases or decreases take place that do not result in changes in the consolidation method. The difference between the amount of net assets purchased or sold and the purchase or sale price is recorded directly in equity.

Impairment on goodwill

The carrying amount of goodwill is reviewed at each year end. For the purpose of this impairment testing, Dexia Crédit Local allocates goodwill to cash-generating units (or groups of cash-generating units), e.g. to a combination of business segment/country/legal entity. When circumstances or events indicate that the goodwill has been subject to a loss in value, the goodwill is written down for impairment when the recoverable amount of the cash-generating unit or group of cash-generating units to which it has been allocated is lower than the carrying amount.

The recoverable amount is the higher of fair value less cost to sell and value in use. The value in use is the sum of the future cash flows that are expected to be derived from the cash-generating unit. Expected cash flows used by Dexia Crédit Local are taken from the three-year financial plan approved by Management.

The calculation of the value in use also reflects the time value of money (current market risk-free rate of interest) adjusted for the risk premium inherent in the asset. This is reflected in the discount rate.

For subsidiaries operating in economically mature and financially stable markets, the discount rate used is Dexia Crédit Local's cost of capital, determined using a dividend discount model. For subsidiaries operating in emerging markets, a specific discount rate is applied on a case-by-case basis.

Other assets

Other assets are comprised primarily of accrued income (non-interest related), prepayments and other accounts receivable. They also include insurance products (insurance premiums receivable, reinsurance, etc.), property development contracts, inventories and plan assets relating to employee benefit obligations. These other assets are recorded at amortised cost less impairment, if applicable. Employee benefits are recognised in accordance with IAS 19 requirements.

Leases

Dexia Crédit Local enters into both finance leases and operating leases. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

Dexia Crédit Local as the lessor

For finance leases, Dexia Crédit Local recognises a lease receivable at an amount equal to the net investment in the lease, which may differ from the present value of the minimum lease payments. The interest rate implicit in the lease contract is used as the discount rate. Interest income is recognised over the term of the lease using the interest rate implicit in the lease.

Revenue from operating leases is recognised in the income statement on a straight-line basis over the lease term. The underlying asset is recognised in accordance with the accounting policies applicable to the type of asset concerned.

Dexia Crédit Local as the lessee

If the lease is recorded as a finance lease, the related asset is capitalised. At inception of the lease, the asset is recorded at the lower of fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is recognised in accordance with the accounting policies applicable to the type of asset concerned. The corresponding rental obligations are recorded as borrowings and lease payments are recorded using the effective interest rate method.

In case of an operating lease, lease payments made under the agreement are recognised in the income statement on a straight-line basis over the lease term. The underlying asset is not recognised.

When an operating lease is terminated before the lease period has expired, any payments to be made to the lessor by way of penalty are recognised as an expense in the period in which termination takes place.

Sale and repurchase agreements and lending of securities

Securities sold subject to a repurchase agreement (repos) are not derecognised and remain on the balance sheet in their original category. The corresponding liability is included in "Interbank borrowings and deposits" or "Customer deposits" as appropriate. The asset is reported as pledged in the notes.

Securities purchased under an agreement to resell (reverse repos) are recorded as off-balance sheet items and the corresponding loans are recorded in "Interbank loans and advances" or "Customer loans and advances" as appropriate.

The difference between the sale and repurchase price is treated as interest income or expense and is amortised over the life of the agreement using the effective interest rate method. Securities lent to third parties are retained in the financial statements.

Securities borrowed are not recognised in the financial statements.

If these borrowed securities are sold to third parties, the obligation to return them is recorded at fair value in "Financial liabilities at fair value though profit or loss" and the gain or loss is included in "Net gains (losses) on financial instruments at fair value through profit or loss".

Deferred income tax

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The tax rates enacted or substantively enacted at the balance-sheet date are used to determine deferred income tax.

Deferred tax assets and liabilities are not discounted. Deferred tax assets on deductible temporary differences and tax loss carry-forwards are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences and tax losses can be utilised.

Deferred tax liabilities are calculated on all temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax related to fair value remeasurement of available-for-sale assets and cash flow hedges and other transactions recorded directly in equity is also credited or charged directly to equity.

Employee benefits

Short-term benefits

Short-term benefits, payable within 12 months after service is rendered, are not discounted and are recognised as an expense.

Post-employment benefits

When Dexia Crédit Local has a legal or constructive obligation to pay post-employment benefits, the plan is classified as either a defined benefit or defined contribution plan. Dexia Crédit Local offers a number of defined benefit and defined contribution plans throughout the world, the assets of which are generally entrusted to insurance companies or pension funds. The pension plans are generally funded by payments from both employees and Dexia Crédit Local.

In some cases, Dexia Crédit Local provides former employees with post-retirement health care benefits.

Defined benefit plans

Employee benefit obligations are measured at the present value of the estimated future cash outflows, which are discounted using the interest rates applicable to corporate bonds rated AA, whose terms to maturity are similar to the average maturity of the related liability. The calculation of pension expenses is based on, among other things, actuarial and demographic assumptions and the inflation rate.

Pension costs are determined based on the Projected Unit Credit method. Under this method, the cost of providing pensions is charged to the income statement over the expected service lives of employees. Dexia Crédit Local has elected to apply the so-called corridor method: net cumulative unrecognised actuarial gains and losses exceeding the corridor (greater than 10% of the present value of the gross defined benefit obligation and 10% of the fair value of any plan assets) are recognised in income over the average remaining working life of the plan participants.

The amount recognised on the balance sheet is the present value of the defined benefit obligation (which is the present value of the expected future payments required to settle the obligation resulting from current and future services rendered), as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and reduced by the fair value of plan assets at the balance-sheet date. The defined obligation is presented net of plan assets as a liability unless the assets are held by a Group entity, in which case the corresponding assets are recognised as assets in Dexia Crédit Local's balance sheet. Also, where a plan has been overfunded, an asset may be calculated and recorded separately if those assets are held by a Group entity.

Any asset recognised is limited to the total of any cumulative unrecognised net actuarial gains and losses and past service cost, and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Qualified internal and external actuaries carry out valuations of these obligations. All valuations, assumptions and results are reviewed and validated on behalf of Dexia Crédit Local by an external actuary, who ensures that all calculations are harmonised and calculated in conformity with IAS 19.

Defined contribution pension plans

Dexia Crédit Local's contributions to defined contribution pension plans are charged to the income statement in the year to which they relate. Under such plans, Dexia Crédit Local's obligation is limited to the contributions that it agrees to pay into the fund on behalf of employees.

Post-employment medical care

Entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that used for defined benefit pension plans.

Other long-term benefits

These mainly include provisions for long-service awards that employees receive after completion of specified periods of service.

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

Employee entitlement to annual leave or long-service leave is recognised when granted to the employee. As such, a provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance-sheet date.

Termination benefits

A termination benefit provision is recorded only when Dexia Crédit Local is committed to terminate the employment before the normal retirement date and to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Dexia Crédit Local must have in place a detailed formal plan and no realistic possibility of withdrawal.

Share-based payments

Dexia Crédit Local offers equity-settled share based payments like stock options plans (SOP) and employee share purchase plans (ESPP) and cash-settled share-based payments.

The fair value of equity-settled plans is measured at grant date by reference to the fair value of the underlying equity instrument based on valuation techniques and market data. The fair value is recognised as remuneration expense and is credited against equity.

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

Provisions for risks and charges

Provisions are mainly recognised for litigation claims, restructuring and off-balance sheet loan commitments.

A provision is measured at the present value of the expenditure expected to be required to settle the obligation. The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money.

Provisions are recognised when:

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

Provisions on loan commitments are recognised using the same methodology as that applied for the impairment of financial assets measured at amortised cost.

Dividends on ordinary shares

Dividends on ordinary shares are recognised in liabilities from the date they are declared (they must be authorised and no longer at the entity's discretion).

Earnings per share

Basic earnings per share are calculated by dividing the Group share of net income available to ordinary shareholders by the weighted average number of shares of ordinary shares in issue at the year end.

Related-party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party when making financial or operational decisions. The ultimate parent company of the Group is Dexia SA, incorporated in Belgium. Transactions with companies accounted for by the equity method are reported, as are those with the Directors.

Segment reporting

Business line reporting

An operating segment is a component of Dexia Crédit Local that engages in business activities from which it may earn revenue and for which it may incur expenses and whose operating results are regularly reviewed.

The business segmentation was adapted to Dexia Crédit Local's new profile and strategic directions.

The Dexia Crédit Local group currently has two divisions:

Core Division, composed of the following business lines:

Operating segment 1 - Public and Wholesale Banking (PWB);

Operating segment 2 - Retail and Commercial Banking (RCB);

Operating segment 3 - Group Centre.

Legacy Portfolio Management Division, which covers the portfolios in run-off (non-core PWB loans, Bonds and Financial products portfolios in run-off).

- The Legacy Portfolio Management Division remains on the balance sheet in a separate unit described as non-core, with specifically allocated funding. The State-guaranteed funding is allocated to this division, meaning that the core division is no longer impacted by the cost of the State-guaranteed funding.
- Interest on equity allocated by the Group Centre to the business lines is now calculated based on the new concept of allocated equity, i.e.:
  - for the Core Division segments, allocated equity is equal to the economic equity;
  - for the Legacy Division segments, allocated equity is equal to the normative equity, i.e. 12.5% of the weighted risks.

Return on allocated equity measures the performance of each core business line.

Relations between business lines are subject to management accounting transfers that are governed by service level agreements based on normal commercial terms and market conditions. The results of each business line also include:

- the sales margin;
- interest on economic capital: economic capital is allocated to the business lines for internal management purposes and the return on economic capital is used to measure the performance of each business line.

Geographical information

Although Dexia Crédit Local's business is managed on a worldwide basis, countries with income in excess of 10% (in absolute terms) are shown separately for segment reporting purposes.

Geographical information is based on booking centres, being the country of the company having recorded the transaction and not the country of the customer.

Dexia Crédit Local operates in four main geographical areas as follows:

- euro zone (countries using the euro as currency);
- rest of Europe (European countries that do not belong to the euro zone);
- United States;
- rest of world.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with terms to maturity of less than three months included in cash and balances with central banks, interbank loans and advances and available-for-sale financial assets.

2. Notes on the assets

2.0. Cash, central banks and postal checking accounts (item I - assets)

(EUR millions)	2009	2010
Cash	32	36
Mandatory reserve deposits with central banks	496	354
Other central bank deposits and balances with postal checking accounts	373	34
TOTAL	**901**	**424**
of which, included in cash and cash equivalents	*901*	*424*

2.1. Financial assets at fair value through profit or loss (item II - assets)

This line includes both the held-for-trading portfolio and all financial assets at fair value through profit or loss (see point regarding "Financial assets at fair value through profit or loss" in note 1.3 Accounting policies and valuation methods).

(EUR millions)	2009	2010
Loans and securities	3,434	3,003
Derivatives (see note 4.1.b)	10,038	13,683
TOTAL	**13,472**	**16,686**

a. Analysis by counterparty

			2009			2010
(EUR millions)	Held for trading	Designated at fair value	Total	Held for trading	Designated at fair value	Total
Public sector	92	209	301	53	108	161
Banks	177	12	189	164	19	183
Other sectors	2,932	12	2,944	2,616	43	2,659
TOTAL	**3,201**	**233**	**3,434**	**2,833**	**170**	**3,003**
of which, included in finance leases	*0*	*0*	*0*	*0*	*0*	*0*

b. Analysis by nature

			2009			2010
(EUR millions)	Held for trading	Designated at fair value	Total	Held for trading	Designated at fair value	Total
Loans	0	7	7	0	37	37
Bonds issued by public bodies	52	42	94	53	32	85
Other bonds and fixed-income instruments	3,149	184	3,333	2,780	101	2,881
Equities and other variable-income instruments	0	0	0	0	0	0
TOTAL	**3,201**	**233**	**3,434**	**2,833**	**170**	**3,003**

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

None.

d. Securities pledged under repurchase agreements (repos)

(EUR millions)	2009	2010
Included in bonds issued by public bodies	0	2
Included in other bonds and fixed-income instruments	259	5

e. Analysis by maturity and interest rate

See notes 7.7 and 7.4

f. Analysis of fair value

See note 7.1

The Dexia Crédit Local Group uses the fair value option mainly to eliminate, or significantly reduce, the inconsistency in the measurement or recognition (also called the accounting mismatch) that otherwise arises from measuring financial assets or recognising the gains and losses on them on a different basis.

The methodology used to determine the fair value of financial assets at fair value through profit or loss is presented in note 1.3 Accounting policies and valuation methods, paragraph Fair value of financial instruments.

g. Reclassification of financial assets (IAS 39 amended)

See note 2.14

2.2. Available-for-sale financial assets (item IV – assets)

a. Analysis by counterparty

(EUR millions)	2009	2010
Public sector	20,825	19,469
Banks	21,150	14,248
Other sectors	5,511	5,182
Performing assets	**47,486**	**38,899**
Impaired loans	0	0
Impaired bonds issued by public bodies	0	0
Other impaired bonds and fixed-income instruments	215	240
Impaired equities and other variable-income instruments	164	182
Impaired assets (1)	**379**	**422**
Total assets before impairment	**47,865**	**39,321**
Specific impairment	(248)	(238)
Collective impairment	0	0
TOTAL	**47,617**	**39,083**
of which, included in cash and cash equivalents	*1,206*	*1,449*

(1) The impaired assets pertain primarily to bonds issued by Icelandic banks and Lehman Brothers.

b. Analysis by nature

(EUR millions)	2009	2010
Loans	0	0
Bonds issued by public bodies	17,949	16,201
Other bonds and fixed-income instruments	29,272	22,494
Equities and other variable-income instruments	644	626
TOTAL	**47,865**	**39,321**

c. Transfers between portfolios

None.

d. Convertible bonds included in the available-for-sale portfolio

None.

e. Analysis by maturity and interest rate

See notes 7.7 and 7.4

f. Analysis of fair value

See note 7.1

g. Analysis of quality

See note 2.13 "Quality of financial assets"

h. Reclassification of financial assets (IAS 39 amended)

See note 2.14

2.3. Interbank loans and advances (item V – assets)

a. Analysis by nature

(EUR millions)	2009	2010
Nostro accounts	6,577	2,631
Reverse repurchase agreements (reverse repos)	824	1,165
Other interbank loans and advances (1)	13,126	14,028
Debt instruments	6,278	4,810
Performing assets	**26,805**	**22,634**
Impaired loans and advances	0	0
Impaired assets	**0**	**0**
Total assets before impairment	**26,805**	**22,634**
Specific impairment	0	0
Collective impairment	(9)	(9)
TOTAL	**26,796**	**22,625**
of which, included in cash and cash equivalents	*12,854*	*11,249*
of which, included in finance leases	*0*	*0*

(1) Interbank loans and advances include loans granted to other Dexia Group entities (see note 4.3).

b. Analysis by maturity and interest rate

See notes 7.7 and 7.4

c. Analysis of fair value

See note 7.1

d. Analysis of quality

See note 2.13 "Quality of financial assets"

e. Reclassification of financial assets (IAS 39 amended)

See note 2.14

2.4. Customer loans and advances (item VI – assets)

a. Analysis by counterparty

(EUR millions)	2009	2010
Public sector (4)	161,713	160,842
Other sectors (4)	77,169	78,277
Performing assets	**238,882**	**239,119**
Impaired loans and advances	553	624
Impaired debt instruments (1)	1,894	2,764
Impaired assets	**2,447**	**3,388**
Total assets before impairment	**241,329**	**242,507**
Specific impairment (2)	(1,382)	(1,875)
Collective impairment (3)	(749)	(650)
TOTAL	**239,198**	**239,982**
of which, included in finance leases	*1,814*	*1,895*

(1) These are mainly securities from the Financial products business (see note 7.2.a).
(2) The specific impairment at 31 December 2010 includes EUR 1,679 million in provisions related to Financial products (EUR 1,253 million in 2009).
(3) The collective impairment at 31 December 2010 includes EUR 327 million in provisions related to Financial products (EUR 239 million in 2009).
(4) In 2009, EUR 4,392 million of loans by the Social Housing activity of the London branch were transferred from "Public sector" to "Other sectors".

b. Analysis by nature

(EUR millions)	2009	2010
Reverse repurchase agreements (reverse repos)	48	99
Loans and advances	166,803	167,629
Debt instruments	72,031	71,391
Performing assets	**238,882**	**239,119**
Impaired loans and advances	553	624
Impaired debt instruments (1)	1,894	2,764
Impaired assets	**2,447**	**3,388**
Total assets before impairment	**241,329**	**242,507**
Specific impairment (2)	(1,382)	(1,875)
Collective impairment (3)	(749)	(650)
TOTAL	**239,198**	**239,982**
of which, included in finance leases	*1,814*	*1,895*

(1) These are mainly securities from the Financial products business (see note 7.2.a).
(2) The specific impairment at 31 December 2010 includes EUR 1,679 million in provisions related to Financial products (EUR 1,253 million in 2009).
(3) The collective impairment at 31 December 2010 includes EUR 327 million in provisions related to Financial products (EUR 239 million in 2009).

c. Analysis by maturity and interest rate

See notes 7.7 and 7.4

d. Analysis of fair value

See note 7.1

e. Analysis of quality

See note 2.13 "Quality of financial assets"

f. Reclassification of financial assets (IAS 39 amended)

See note 2.14

2.5. Held-to-maturity financial assets (item VIII – assets)

a. Analysis by counterparty

(EUR millions)	2009	2010
Public sector	821	732
Banks	26	26
Other sectors	126	81
Performing assets	**973**	**839**
Impaired bonds issued by public bodies	0	0
Other impaired bonds and fixed-income instruments	0	0
Impaired assets	**0**	**0**
Total assets before impairment	**973**	**839**
Specific impairment	0	0
TOTAL	**973**	**839**

b. Analysis by nature

(EUR millions)	2009	2010
Bonds issued by public bodies	510	461
Other bonds and fixed-income instruments	463	378
TOTAL	**973**	**839**

c. Analysis by maturity and interest rate

See notes 7.7 and 7.4

d. Analysis of fair value

See note 7.1

e. Analysis of quality

See note 2.13 "Quality of financial assets"

2.6. Tax assets (items IX and X – assets)

(EUR millions)	2009	2010
Current income tax	78	93
Current tax assets	**78**	**93**
Deferred tax assets (see note 4.2)	**1,968**	**1,541**

2.7. Accruals and other assets (item XI – assets)

(EUR millions)	2009	2010
Other assets	358	418
Cash collateral [(1)]	17,530	23,898
Accruals and other assets	**17,888**	**24,316**

(1) The increase in cash collateral is due to the decline in interest rates during 2010.

Other assets

Analysis by nature (EUR millions)	2009	2010
Accrued income	9	8
Deferred expenses	6	5
Other accounts receivable	308	376
Plan assets	0	0
Long-term construction contracts	0	0
Inventories	1	1
Other taxes	12	6
Performing assets	**336**	**396**
Impaired assets [(1)]	**215**	**216**
Total assets before impairment	**551**	**612**
Specific impairment [(1)]	(193)	(194)
TOTAL	**358**	**418**

(1) Impaired assets comprise derivatives transactions with banking (Lehman Brothers) and other customer counterparties.

2.8. Investments in associates (item XIII – assets)

None.

2.9. Investment property and tangible assets (items XIV and XV – assets)

a. Movements

(EUR millions)	Investment property	Tangible assets – Land and buildings – Own use – owner	Tangible assets – Land and buildings – Own use – finance lease	Tangible assets – Office furniture and other equipment – Own use – owner	Tangible assets – Office furniture and other equipment – Own use – finance lease	Tangible assets – Office furniture and other equipment – Operating lease	Total
Acquisition cost as at 1 January 2009	**0**	**434**	**0**	**114**	**0**	**111**	**659**
• Acquisitions	0	1	0	6	0	42	49
• Post-acquisition adjustment	0	0	0	0	0	0	0
• Disposals and retirements	0	(1)	0	(13)	0	(18)	(32)
• Change in consolidation scope (in)	0	0	0	0	0	0	0
• Change in consolidation scope (out)	0	0	0	0	0	0	0
• Transfers	0	0	0	0	0	0	0
• Translation adjustments (1)	0	0	0	(1)	0	0	(1)
• Other movements	0	0	0	0	0	0	0
Acquisition cost as at 31 December 2009	**0**	**434**	**0**	**106**	**0**	**135**	**675**
Accumulated depreciation and impairment as at 1 January 2009	**0**	**(47)**	**0**	**(76)**	**0**	**(32)**	**(155)**
• Post-acquisition adjustment	0	0	0	0	0	0	0
• Additions	0	(9)	0	(11)	0	(20)	(40)
• Disposals and retirements	0	0	0	10	0	9	19
• Change in consolidation scope (in)	0	0	0	0	0	0	0
• Change in consolidation scope (out)	0	0	0	0	0	0	0
• Transfers	0	0	0	1	0	0	1
• Translation adjustments (1)	0	0	0	0	0	0	0
• Other movements	0	0	0	0	0	0	0
Accumulated depreciation and impairment as at 31 December 2009	**0**	**(56)**	**0**	**(76)**	**0**	**(43)**	**(175)**
NET CARRYING VALUE AS AT 31 DECEMBER 2009	**0**	**378**	**0**	**30**	**0**	**92**	**500**

(1) Impact of changes in exchange rates between 1 January and 31 December on balances in foreign currencies at 1 January, and impact of the difference between the average and year-end exchange rates on movements for the year.

(EUR millions)	Investment property	Tangible assets – Land and buildings – Own use – owner	Tangible assets – Land and buildings – Own use – finance lease	Tangible assets – Office furniture and other equipment – Own use – owner	Tangible assets – Office furniture and other equipment – Own use – finance lease	Tangible assets – Office furniture and other equipment – Operating lease	Total
Acquisition cost as at 1 January 2010	**0**	**434**	**0**	**106**	**0**	**135**	**675**
• Acquisitions	0	1	0	9	0	81	91
• Post-acquisition adjustment	0	0	0	0	0	0	0
• Disposals and retirements	0	(1)	0	(6)	0	(27)	(34)
• Change in consolidation scope (in)	0	0	1	1	0	0	2
• Change in consolidation scope (out)	0	0	0	(1)	0	0	(1)
• Transfers	0	0	0	0	0	0	0
• Translation adjustments (1)	0	1	0	2	0	0	3
• Other movements	0	0	0	0	0	1	1
Acquisition cost as at 31 December 2010	**0**	**435**	**1**	**111**	**0**	**190**	**737**
Accumulated depreciation and impairment as at 1 January 2010	**0**	**(56)**	**0**	**(76)**	**0**	**(43)**	**(175)**
• Post-acquisition adjustment	0	0	0	0	0	0	0
• Additions	0	(9)	0	(10)	0	(32)	(51)
• Disposals and retirements	0	0	0	6	0	14	20
• Change in consolidation scope (in)	0	0	(1)	(1)	0	0	(2)
• Change in consolidation scope (out)	0	0	0	1	0	0	1
• Transfers	0	0	0	0	0	0	0
• Translation adjustments (1)	0	0	0	(1)	0	0	(1)
• Other movements	0	0	0	0	0	0	0
Accumulated depreciation and impairment as at 31 December 2010	**0**	**(65)**	**(1)**	**(81)**	**0**	**(61)**	**(208)**
NET CARRYING VALUE AS AT 31 DECEMBER 2010	**0**	**370**	**0**	**30**	**0**	**129**	**529**

(1) Impact of changes in exchange rates between 1 January and 31 December on balances in foreign currencies at 1 January, and impact of the difference between the average and year-end exchange rates on movements for the year.

b. Fair value of investment property

None.

c. Capitalised expenses on the construction of tangible assets

None.

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

None.

2.10. Intangible assets (item XVI – assets)

(EUR millions)	2009			2010		
	Internally developed software	Other intangible assets(2)	Total	Internally developed software	Other intangible assets(2)	Total
Acquisition cost as at 1 January	**187**	**134**	**321**	**197**	**144**	**341**
• Acquisitions	11	13	24	12	11	23
• Post-acquisition adjustment	0	0	0	0	0	0
• Disposals and retirements	0	(1)	(1)	0	(1)	(1)
• Change in consolidation scope (in)	0	0	0	0	0	0
• Change in consolidation scope (out)	0	0	0	0	0	0
• Transfers	0	(1)	(1)	0	(1)	(1)
• Translation adjustments (1)	(1)	(1)	(2)	2	1	3
• Other movements	0	0	0	0	0	0
Acquisition cost as at 31 December	**197**	**144**	**341**	**211**	**154**	**365**
Accumulated depreciation and impairment as at 1 January	**(142)**	**(102)**	**(244)**	**(159)**	**(116)**	**(275)**
• Post-acquisition adjustment	0	0	0	0	0	0
• Additions	(17)	(15)	(32)	(16)	(14)	(30)
• Disposals and retirements	0	0	0	0	1	1
• Change in consolidation scope (in)	0	0	0	0	0	0
• Change in consolidation scope (out)	0	0	0	0	0	0
• Transfers	0	1	1	0	1	1
• Translation adjustments (1)	0	0	0	(1)	(1)	(2)
• Other movements	0	0	0	0	0	0
Accumulated depreciation and impairment as at 31 December	**(159)**	**(116)**	**(275)**	**(176)**	**(129)**	**(305)**
NET CARRYING VALUE AS AT 31 DECEMBER	**38**	**28**	**66**	**35**	**25**	**60**

(1) Impact of changes in exchange rates between 1 January and 31 December on balances in foreign currencies at 1 January, and impact of the difference between the average and year-end exchange rates on movements for the year.
(2) Other intangible assets mainly comprise purchased software.

2.11. Goodwill (item XVII – assets)

a. Movements

(EUR millions)	2009	2010
Acquisition cost as at 1 January	**1,705**	**352**
• Acquisitions	0	0
• Post-acquisition adjustment	0	0
• Disposals	0	0
• Change in consolidation scope (in)	0	0
• Change in consolidation scope (out) [(2)]	(1,353)	0
• Transfers	0	0
• Translation adjustments [(1)]	0	0
• Other movements	0	(2)
Acquisition cost as at 31 December	**352**	**350**
Accumulated amortisation and impairment as at 1 January	**(1,499)**	**(152)**
• Post-acquisition adjustment	0	0
• Additions [(3)]	(6)	0
• Disposal, recoveries and reversals	0	0
• Change in consolidation scope (in)	0	0
• Change in consolidation scope (out) [(2)]	1,353	0
• Transfers	0	0
• Translation adjustments [(1)]	0	0
• Other movements	0	2
Accumulated amortisation and impairment as at 31 December	**(152)**	**(150)**
CARRYING AMOUNT AS AT 31 DECEMBER	**200**	**200**

(1) Impact of changes in exchange rates between 1 January and 31 December on balances in foreign currencies at 1 January, and impact of the difference between the average and year-end exchange rates on movements for the year.
(2) Following the sale of FSA's insurance activities to Assured.
(3) The goodwill on Dexia banka Slovensko and Dexia Kommunalkredit Polska were fully written down, for respectively EUR 4 million and EUR 2 million in 2009.

At 31 December 2010, all goodwill has been tested for impairment: no adjustments were required.

b. Analysis of net goodwill by company

(EUR millions)	Year of acquisition	Goodwill
Dexia Crediop	1996	129
Dexia Sofaxis	1999	59
Dexia Israel Bank Ltd.	2001	12
TOTAL		**200**

2.12. Leases

a. Group as lessor

Finance leases

Gross investment in finance leases (EUR millions)	2009	2010
Less than 1 year	111	137
1 year to 5 years	410	447
Over 5 years	1,292	1,308
Sub-total (1)	**1,813**	**1,892**
Unearned future finance income on finance leases (2)	0	0
NET INVESTMENT IN FINANCE LEASES (1) - (2)	**1,813**	**1,892**

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Additional information (EUR millions)	2009	2010
Contingent lease payments recognised in income during the period	0	0
Uncollectible finance lease receivables included in the provision for loan losses at the end of the period	1	1
Residual values not guaranteed by lessees	0	0
Estimated fair value of finance leases	1,812	1,910
Accumulated impairment for uncollectible minimum lease payments receivable	1	0

Operating leases

Future net minimum lease receivables under operating leases (EUR millions)	2009	2010
Less than 1 year	27	34
1 year to 5 years	41	55
Over 5 years	4	3
TOTAL	**72**	**92**

	2009	2010
Amount of contingent lease receivables recognised in income during the period	1	1

b. Group as lessee

Finance leases

None.

Operating leases

Future net minimum lease payments under operating leases (EUR millions)	2009	2010
Less than 1 year	17	15
1 year to 5 years	49	47
Over 5 years	36	47
TOTAL	**102**	**109**

	2009	2010
Future minimum sublease payments expected to be received under non-cancellable subleases at the balance-sheet date	**2**	**2**

Lease and sublease payments recognised as expenses during the year (EUR millions)	2009	2010
Minimum lease payments	21	19
Contingent lease payments	0	0
Sublease payments	(1)	(2)
TOTAL	**20**	**17**

2.13. Quality of financial assets

(EUR millions)	2009	2010
Analysis of performing financial assets		
Interbank loans and advances	26,805	22,634
Customer loans and advances	238,882	239,119
Held-to-maturity financial assets	973	839
Available-for-sale financial assets	47,486	38,899
of which, fixed-income instruments	*47,007*	*38,455*
of which, variable-income instruments	*479*	*444*
Other accounts receivable and other assets (note 2.7)	308	376
Total performing financial assets	**314,454**	**301,867**
Collective impairment	(758)	(659)
NET TOTAL PERFORMING FINANCIAL ASSETS	**313,696**	**301,208**

	Gross amount		Specific impairment		Net amount	
(EUR millions)	2009	2010	2009	2010	2009	2010
Analysis of impaired financial assets						
Interbank loans and advances	0	0	0	0	0	0
Customer loans and advances	2,447	3,388	(1,382)	(1,875)	1,065	1,513
Held-to-maturity financial assets	0	0	0	0	0	0
Available-for-sale financial assets	379	422	(248)	(238)	131	184
of which, fixed-income instruments	*215*	*240*	*(190)*	*(182)*	*25*	*58*
of which, variable-income instruments	*164*	*182*	*(58)*	*(56)*	*106*	*126*
Other accounts receivable and other assets (note 2.7)	215	216	(193)	(194)	22	22
Total	**3,041**	**4,026**	**(1,823)**	**(2,307)**	**1,218**	**1,719**
Analysis of performing and impaired financial assets						
Interbank loans and advances	26,805	22,634	0	0	26,805	22,634
Customer loans and advances	241,329	242,507	(1,382)	(1,875)	239,947	240,632
Held-to-maturity financial assets	973	839	0	0	973	839
Available-for-sale financial assets	47,865	39,321	(248)	(238)	47,617	39,083
of which, fixed-income instruments	*47,222*	*38,695*	*(190)*	*(182)*	*47,032*	*38,513*
of which, variable-income instruments	*643*	*626*	*(58)*	*(56)*	*585*	*570*
Other accounts receivable and other assets (note 2.7)	523	592	(193)	(194)	330	398
Total financial assets	**317,495**	**305,893**	**(1,823)**	**(2,307)**	**315,672**	**303,586**
Collective impairment					(758)	(659)
NET TOTAL	**317,495**	**305,893**	**(1,823)**	**(2,307)**	**314,914**	**302,927**

2.14. Reclassification of financial assets (IAS 39 amended)

The Dexia Crédit Local Group decided to apply the amendment of standards IAS 39 and IFRS 7 Reclassification of Financial Assets for some assets, and opted to reclassify certain assets from "Held-for-trading financial assets" to "Available-for-sale financial assets" or "Loans and advances", as well as from "Available-for-sale financial assets" to "Loans and advances".

a. Impact of reclassifications on 2010 equity and net income

Transfer from "Held-for-trading financial assets" to "Loans and advances" and "Available-for-sale financial assets"

The difference between the carrying amount at reclassification date and the reimbursement amount is amortised over the remaining life of the reclassified asset. The impact of this amortisation on net income for the period is shown in the column "Premium/discount amortisation through profit or loss".

The difference between the carrying amount of reclassified assets as at 31 December 2010 and their fair value represents the cumulative changes in fair value from reclassification date until 31 December 2010. It also includes the cumulative amortisation of the premium or discount since reclassification. The difference is negative in 2010 as spreads have increased.

Transfer from "Available-for-sale financial assets" to "Loans and advances"

The nature of Dexia Crédit Local Group's available-for-sale portfolio is very specific as it consists of securities with very long maturities, resulting in significant changes in value following small shifts in spreads.

If the assets had not been reclassified, the additional revenue recognised in "Cost of risk" (difference compared with the net allocations and utilisations of collective and specific impairments booked on the "Loans and advances" portfolio) is estimated at EUR 24 million in 2010.

When there is objective evidence of impairment for a financial asset initially classified as "Available-for-sale financial assets" but reclassified as "Loans and advances" in accordance with the amended IAS 39, any difference between the net present value of expected future cash flows, discounted at the effective interest rate as at the reclassification date, and the carrying amount is recognised as an impairment loss. Consequently, any outstanding non-amortised amount recognised in the available-for-sale fair value reserve is also recognised as an impairment loss. This category mainly includes non-economic losses that will be reversed in the future through net interest income.

The decrease in the carrying amount of reclassified assets comes mainly from partial or early repayments, maturities and sales made in connection with the policy of reducing the Group's balance sheet.

In comparison with 2008, the decrease in the difference between the carrying amount of a reclassified asset and its fair value reflects the decrease in credit spreads and liquidity on the markets.

b. Impact of reclassifications on the interest margin

For assets transferred from "Available-for-sale financial assets" to "Loans and advances", the amortisation of the premium/discount on the bond is offset by the amortisation of the fair value reserve frozen at the time of reclassification, with no resulting impact on net interest income.

For assets transferred from "Held-for-trading" to "Available-for-sale financial assets" and "Loans and advances", the impact on net interest income in 2010 amounts to EUR 35 million.

	2010						
(EUR millions)	Carrying amount of assets reclassified as at 1 October 2008	Carrying amount of reclassified assets as at 31 December 2010	Fair value of reclassified assets as at 31 December 2010	Amount not taken through profit or loss due to reclassification	Amount not taken through AFS reserve due to reclassification	Premium/discount amortisation through profit or loss	Premium/discount amortisation through AFS reserve
From "Held-for-trading financial assets" to "Loans and advances"	3,570	2,519	2,401	(118)		17	
From "Held-for-trading financial assets" to "Available-for-sale financial assets"	2,264	103	90	(13)		18	
From "Available-for-sale financial assets" to "Loans and advances"	73,774	63,283	62,209		(1,074)		592

3. Notes on the liabilities

3.0. Central banks, postal checking accounts (item I – liabilities)

(EUR millions)	2009	2010
Central banks(1)	28,491	18,517
Postal checking accounts	0	0
TOTAL	**28,491**	**18,517**

(1) In 2009, given the scarcity of interbank liquidity, Dexia Crédit Local used the refinancing facilities offered by central banks. In 2010, following an improvement in its situation, Dexia Crédit Local scaled back its recourse to this form of refinancing.

3.1. Financial liabilities at fair value through profit or loss (item II – liabilities)

(EUR millions)	2009	2010
Held-for-trading liabilities	0	0
Liabilities designated at fair value	4,681	4,356
Derivatives (see note 4.1.b)	10,934	14,900
TOTAL	**15,615**	**19,256**

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

None

b. Analysis by nature of liabilities designated at fair value

(EUR millions)	2009	2010
Non-subordinated liabilities	4,681	4,356
Subordinated liabilities	0	0
Total	**4,681**	**4,356**

c. Analysis by maturity and interest rate

See notes 7.7 and 7.4

d. Analysis of fair value

See notes 7.1 and 7.2.h

The Dexia Crédit Local Group uses the fair value option mainly to eliminate or significantly reduce the measurement or recognition inconsistency (also called the accounting mismatch) that otherwise arises from measuring financial liabilities or recognising the gains and losses on them on a different basis.

The fair value option is essentially used by Dexia FP Holdings Inc. and FSA Global Funding Ltd. for financial liabilities for which the hedge accounting conditions are not met or may not be met.

The credit spread used to revalue these liabilities is Dexia's long-term funding spread.

Income of EUR 23 million was recognised in 2010.

The methodology used to determine the fair value of financial liabilities at fair value through profit or loss is presented in note 1.3 "Accounting policies and valuation methods", paragraph "Fair value of financial instruments".

3.2. Interbank borrowings and deposits (item IV – liabilities)

a. Analysis by nature

(EUR millions)	2009	2010
Demand deposits	1,305	2,536
Repurchase agreements	19,440	23,114
Other debts	56,202	52,420
TOTAL	**76,947**	**78,070**

b. Analysis by maturity and interest rate

See notes 7.7 and 7.4

c. Analysis of fair value

See note 7.1

3.3. Customer borrowings and deposits (item V – liabilities)

a. Analysis by nature

(EUR millions)	2009	2010
Demand deposits	1,732	2,051
Saving deposits	54	69
Term deposits	9,153	8,473
Repurchase agreements	24	28
Other debts	3,004	2,836
TOTAL	**13,967**	**13,457**

b. Analysis by maturity and interest rate

See notes 7.7 and 7.4

c. Analysis of fair value

See note 7.1

3.4. Debt securities (item VI - liabilities)

a. Analysis by nature

(EUR millions)	2009	2010
Certificates of deposit	27,313	13,801
Savings bonds	0	0
Non-convertible bonds(1)	163,583	176,267
Convertibles debts	0	0
Other dilutive instruments	0	0
TOTAL	**190,896**	**190,068**

(1) The increase in this item reflects the significant programme for the issuance of government-guaranteed bonds during the first half of 2010.

b. Analysis by maturity and interest rate

See notes 7.7 and 7.4

c. Analysis of fair value

See note 7.1

3.5. Tax liabilities (items VIII and IX - liabilities)

(EUR millions)	2009	2010
Current income tax	127	52
Current tax liabilities	**127**	**52**
Deferred tax liabilities (see note 4.2)	**5**	**9**

3.6. Accruals and other liabilities (item X - liabilities)

(EUR millions)	2009	2010
Other liabilities	1,264	1,048
Cash collateral	3,198	2,611
TOTAL	**4,462**	**3,659**

Other liabilities

(EUR millions)	2009	2010
Accrued expenses	370	114
Deferred income	379	366
Grants	91	94
Other assistance received	1	1
Salaries and social charges (payable)	24	24
Dividends payable to shareholders	0	0
Other taxes	29	24
Long-term construction contracts	0	0
Other accounts payable and other liabilities	370	425
TOTAL	**1,264**	**1,048**

3.7. Technical provisions of insurance companies (item XII - liabilities)

None.

3.8. Provisions (item XIII - liabilities)

a. Analysis by nature

(EUR millions)	2009	2010
Litigation claims	178	84
Restructuring	34	34
Defined benefit plans	12	12
Other post-retirement obligations	0	0
Other long-term employee benefits	3	3
Provision for off-balance sheet credit commitments	2	2
Onerous contracts	0	0
Other provisions	34	2
TOTAL PROVISIONS	**263**	**137**

b. Movements

(EUR millions)	Litigation claims	Restructuring	Pensions and other employee benefits	Provision for off-balance sheet credit commitments	Onerous contracts	Other provisions	Total
As at 1 January 2009	**86**	**43**	**22**	**13**	**0**	**39**	**203**
Additions	46	12	6	2	0	2	68
Unutilised amounts reversed and amounts utilised during the year	(6)	(21)	(13)	(1)	0	(6)	(47)
Passage of time and effect of changes in discount rate	0	0	0	0	0	0	0
Change in consolidation scope (in)	0	0	0	0	0	0	0
Change in consolidation scope (out)	0	0	0	0	0	0	0
Transfers	57	0	0	(12)	0	0	45
Translation adjustment(1)	(5)	0	0	0	0	(1)	(6)
Other movements	0	0	0	0	0	0	0
As at 31 December 2009	**178**	**34**	**15**	**2**	**0**	**34**	**263**

(1) Impact of changes in exchange rates between 1 January and 31 December on balances in foreign currencies at 1 January, and impact of the difference between the average and year-end exchange rates on movements for the year.

(EUR millions)	Litigation claims	Restructuring	Pensions and other employee benefits	Provision for off-balance sheet credit commitments	Onerous contracts	Other provisions	Total
As at 1 January 2010	**178**	**34**	**15**	**2**	**0**	**34**	**263**
Additions	7	22	5	0	0	1	35
Unutilised amounts reversed and amounts utilised during the year	(33)	(22)	(5)	0	0	(35)	(95)
Passage of time and effect of changes in discount rate	0	0	0	0	0	0	0
Change in consolidation scope (in)	0	0	0	0	0	0	0
Change in consolidation scope (out)	0	0	0	0	0	(1)	(1)
Transfers	(80)	0	0	0	0	0	(80)
Translation adjustment(1)	12	0	0	0	0	3	15
Other movements	0	0	0	0	0	0	0
As at 31 December 2010	**84**	**34**	**15**	**2**	**0**	**2**	**137**

(1) Impact of changes in exchange rates between 1 January and 31 December on balances in foreign currencies at 1 January, and impact of the difference between the average and year-end exchange rates on movements for the year.

c. Provisions for defined benefit pensions and other long-term benefits

Provisions for defined benefit pension plans and long-service awards represent a liability of EUR 15 million as at 31 December 2010 and EUR 15 million as at 31 December 2009.

Given their immateriality, the information used in the actuarial calculation of these provisions is not presented.

3.9. Subordinated debt (item XIV - liabilities)

a. Analysis by nature

Convertible subordinated debt

None.

Non-convertible subordinated debt (EUR millions)	2009	2010
Perpetual subordinated notes	1,203	1,278
Other subordinated notes	3,643	3,041
TOTAL	**4,846**	**4,319**

Hybrid capital and redeemable preference shares

None.

b. Analysis by maturity and interest rate

See notes 7.7 and 7.4

c. Analysis of fair value

See note 7.1

d. Detailed information

Currency	Due	Amount in millions	a) Early repayment conditions b) Subordination conditions c) Convertibility conditions	Interest rate (%)
USD	No fixed maturity	250	a) Early repayment impossible during the first 10 years except after prior approval by the general secretariat of the Banking Commission* and unless replaced by shareholders' equity of equivalent or better quality. Repayment possible at each due date for interest payments with effect from 01/10/2012 subject to prior approval by the general secretariat of the Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M USD LIBOR + 1.1 From 02/10/2012, 3M USD LIBOR + 1.85
USD	No fixed maturity	1,190	a) Early repayment impossible during the first 10 years except after prior approval by the general secretariat of the Banking Commission and unless replaced by shareholders' equity of equivalent or better quality. Repayment possible at each due date for interest payments with effect from 05/04/2015 subject to prior approval by the general secretariat of the Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M USD LIBOR + 0.39 From 06/04/2015, 3M USD LIBOR + 1.14
EUR	No fixed maturity	200	a) Early repayment impossible during the first 10 years except after prior approval by the general secretariat of the Banking Commission and unless replaced by shareholders' equity of equivalent or better quality. Repayment possible at each due date for interest payments with effect from 01/07/2015 subject to prior approval by the general secretariat of the Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M EURIBOR + 0.79 From July 2015 to July 2020, 3M EURIBOR + 1.40 then 3M EURIBOR +2.15
EUR	01/12/2014	100	a) No early repayment b) No specific conditions c) No conversion	93.25% CMS
EUR	12/02/2019	300	a) Repayment possible at each due date for interest payments with effect from 12/02/2014 subject to prior approval by the general secretariat of the Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	Fixed rate 4.375 From 12/02/14, 4.412

**Renamed with effect from March 2010: Prudential control authority* (Autorité de contrôle prudentiel).

Currency	Due	Amount in millions	a) Early repayment conditions b) Subordination conditions c) Convertibility conditions	Interest rate (%)
EUR	09/07/2017	500	a) Repayment possible at each due date for interest payments with effect from 09/07/2012 subject to prior approval by the general secretariat of the Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	EURIBOR 3M + 0,15 From 09/07/2012, 3M EURIBOR + 0.65
EUR	01/01/2015	450	a) Repayment possible at each due date for interest payments with effect from 01/01/2010 subject to prior approval by the general secretariat of the Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M EURIBOR + 0.32
EUR	28/12/2017	300	a) Repayment possible at each due date for interest payments with effect from 28/12/2012 subject to prior approval by the general secretariat of the Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M EURIBOR + 1.45 until 28/12/2012 then 3M EURIBOR + 1.95
USD	27/09/2012	60	a) Repayment possible at each due date for interest payments with effect from 01/10/2007 subject to prior approval by the general secretariat of the Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M USD LIBOR + 0.5925
USD	01/04/2013	130	a) Repayment possible at each due date for interest payments with effect from 01/04/2008 subject to prior approval by the general secretariat of the Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M USD LIBOR + 0.5475
USD	01/04/2013	200	a) Repayment possible at each due date for interest payments with effect from 01/04/2008 subject to prior approval by the general secretariat of the Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M USD LIBOR + 0.4975
USD	01/10/2013	200	a) Repayment possible at each due date for interest payments with effect from 01/10/2008 subject to prior approval by the general secretariat of the Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M USD LIBOR + 0.4625
USD	01/01/2014	100	a) Repayment possible at each due date for interest payments with effect from 01/01/2009 subject to prior approval by the general secretariat of the Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M USD LIBOR + 0.485
USD	01/07/2014	135	a) Repayment possible at each due date for interest payments with effect from 01/07/2009 subject to prior approval by the general secretariat of the Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M USD LIBOR + 0.43

Currency	Due	Amount in millions	a) Early repayment conditions b) Subordination conditions c) Convertibility conditions	Interest rate (%)
USD	01/10/2014	265	a) Repayment possible at each due date for interest payments with effect from 01/10/2009 subject to prior approval by the general secretariat of the Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M LIBOR USD + 0.33
EUR	20/06/2018	300	a) Repayment possible at each due date for interest payments with effect from 20/06/2013 subject to prior approval by the general secretariat of the Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M EURIBOR + 1.5 From 20/06/2013, 1Y EURIBOR + 2
EUR	20/11/2012	3	a) No early repayment b) No specific conditions c) No conversion	6.450
EUR	30/06/2013	1	a) No early repayment b) No specific conditions c) No conversion	6.600
EUR	01/06/2012	3.5	a) No early repayment b) No specific conditions c) No conversion	6.970
EUR	30/06/2011	15	a) No early repayment b) No specific conditions c) No conversion	6.400
EUR	01/07/2013	5	a) No early repayment b) No specific conditions c) No conversion	6M EURIBOR + 2.10
EUR	07/11/2012	5	a) No early repayment b) No specific conditions c) No conversion	6.210
EUR	12/11/2012	5	a) No early repayment b) No specific conditions c) No conversion	6.080
EUR	07/03/2013	10	a) No early repayment b) No specific conditions c) No conversion	5.280
EUR	17/08/2011	10	a) No early repayment b) No specific conditions c) No conversion	30Y CMS Pounds
EUR	30/06/2014	10	a) No early repayment b) No specific conditions c) No conversion	6.250
EUR	30/06/2014	10	a) No early repayment b) No specific conditions c) No conversion	6.450
EUR	02/06/2014	20	a) No early repayment b) No specific conditions c) No conversion	6.250
EUR	01/06/2017	14	a) No early repayment b) No specific conditions c) No conversion	5.080
EUR	01/06/2017	22	a) No early repayment b) No specific conditions c) No conversion	4.875

Currency	Due	Amount in millions	a) Early repayment conditions b) Subordination conditions c) Convertibility conditions	Interest rate (%)
EUR	01/06/2018	20	a) No early repayment b) No specific conditions c) No conversion	5.570
EUR	01/06/2018	21.784	a) No early repayment b) No specific conditions c) No conversion	5.625
EUR	23/12/2015	6.8	a) No early repayment b) After all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M EURIBOR + 0.25
EUR	29/10/2018	19.7	a) Repayment possible at the Issuer's option on 29/10/2013 or annually thereafter, if repayment is compliant with the Austrian Banking Act and is replaced by other capital in the same amount and of at least equivalent quality b) In the event of the liquidation or bankruptcy of the Issuer, after the non-subordinated creditors have been satisfied c) No conversion	3M EURIBOR + 4.75
PLN	03/10/2018	45	a) No early repayment b) In the event of the liquidation or bankruptcy of the Issuer, after the non-subordinated creditors have been satisfied c) No conversion	1M WIBOR + 2.65

3.10. Equity

a. Capital stock

On 1 January 2010, Dexia Crédit Local had capital stock of EUR 500,513,102 divided into 87,045,757 shares.

Following a decision made by the Board of Directors at its 14 December 2010 meeting, Dexia Crédit Local increased its capital by means of a cash contribution of EUR 640 million, bringing the total capital stock to EUR 1,140 million. Dexia SA carried out this capital stock increase by converting an existing subordinated loan. In the light of the estimated losses for the year, the Board of Directors decided to reduce the capital stock by EUR 640 million. Dexia Crédit Local's capital stock thus remains unchanged at EUR 500,513,102, divided into 87,045,757 shares with a par value of EUR 5.75 per share.

b. Super-subordinated perpetual note

In the last quarter of 2005, Dexia Crédit Local issued EUR 700 million in super-subordinated perpetual notes.

The notes carry an early redemption call option at par value that may be exercised by the issuer at each interest payment date with effect from 18 November 2015.

The notes bear interest at a fixed rate of 4.3% per annum for the first 10 years. Subsequently, if they are not redeemed early, they will bear interest at a floating rate equal to 3-month Euribor plus 1.73% per annum, payable quarterly.

The payment of interest may, and in certain cases must, be suspended. Any unpaid interest at the coupon date will be forfeited and will no longer be payable by the issuer.

The principal may also be reduced through the incorporation of losses.

The notes are included in both accounting and regulatory capital calculations. Interest payments are treated as dividends and deducted directly from equity.

In 2008, the amount paid came to EUR 20 million, net of tax.

In October 2009, as part of the discussions between Dexia and the European Commission, Dexia committed to not paying any discretionary coupons on Tier 1 and Upper Tier 2 issues during a four-month period. This commitment was also applicable to the 18 November 2009 interest payment on Dexia Crédit Local's EUR 700 million perpetual super-subordinated notes.

Accordingly, on 3 November 2009, Dexia Crédit Local's Management Board decided that the 18 November 2009 coupon on these securities would not be paid.

In February 2010, Dexia confirmed that it will pay coupons on its subordinated debt instruments only if it has a contractual obligation to do so, and will not exercise any early redemption option before the end of 2011. This commitment includes, among others, the aforementioned perpetual super-subordinated notes.

On 1 October 2010, Dexia Crédit Local's Management Board decided not to pay the coupon due on 18 November 2010.

c. Other movements

In 2010, other movements includes an adjustment of EUR 14 million between Group share of equity and minority interests.

4. Other notes on the balance sheet

4.1. Derivatives

a. Analysis by nature

(EUR millions)	As at 31 December 2009		As at 31 December 2010	
	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through profit or loss (see notes 2.1 and 3.1)	**10,038**	**10,934**	**13,683**	**14,900**
Derivatives designated as fair value hedges	4,815	17,229	7,680	25,716
Derivatives designated as cash flow hedges	469	974	252	882
Derivatives designated as hedges of a net investment in a foreign entity	0	0	0	0
Derivatives designated as portfolio hedges	3,536	3,284	4,385	4,450
Hedging derivatives	**8,820**	**21,487**	**12,317**	**31,048**
TOTAL DERIVATIVES	**18,858**	**32,421**	**26,000**	**45,948**

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

	As at 31 December 2009				As at 31 December 2010			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
(EUR millions)	To receive	To deliver			To receive	To deliver		
Foreign exchange derivatives	**22,135**	**22,411**	**396**	**501**	**21,846**	**22,175**	**1,211**	**993**
Foreign exchange forward	3,033	3,026	5	3	2,880	2,894	1	17
Foreign exchange future	0	0	0	0	0	0	0	0
Cross currency swap	6,411	7,916	389	484	6,785	7,104	1,208	968
Foreign exchange option	1,298	0	0	12	960	963	0	8
Foreign exchange forward rate agreement	0	0	0	0	1,426	1,441	0	0
Other currency (foreign exchange)	11,393	11,469	2	2	9,795	9,773	2	0
Interest rate derivatives	**267,861**	**268,106**	**8,987**	**10,385**	**241,047**	**241,089**	**11,830**	**13,759**
Option-Cap-Floor-Collar-Swaption	2,339	1,753	101	29	2,179	1,417	78	46
Interest rate swap	262,273	262,901	8,865	10,356	235,577	235,962	11,710	13,712
Forward rate agreement	590	793	0	0	2,052	2,389	0	0
Forward	0	0	0	0	0	0	0	0
Interest future	2,659	2,659	21	0	1,239	1,239	13	0
Other interest rate	0	0	0	0	0	82	29	1
Equity derivatives	**306**	**306**	**16**	**15**	**246**	**246**	**10**	**10**
Equity option	37	37	5	5	31	31	2	2
Other equity	269	269	11	10	215	215	8	8
Credit derivatives	**7,241**	**3,717**	**639**	**33**	**7,223**	**3,416**	**632**	**137**
Credit default swap	7,241	3,717	639	33	7,223	3,416	632	137
Commodity derivatives	**13**	**12**	**0**	**0**	**9**	**8**	**0**	**1**
TOTAL	**297,556**	**294,552**	**10,038**	**10,934**	**270,371**	**266,934**	**13,683**	**14,900**

c. Detail of derivatives designated as fair value hedges

(EUR millions)	As at 31 December 2009				As at 31 December 2010			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
	To receive	To deliver			To receive	To deliver		
Foreign exchange derivatives	**30,875**	**32,435**	**1,084**	**2,965**	**27,050**	**28,629**	**2,013**	**5,321**
Cross currency swap	24,862	26,222	1,057	2,385	27,050	28,629	2,013	5,321
Foreign exchange forward rate agreement	6,013	6,213	27	580	0	0	0	0
Interest rate derivatives	**179,642**	**179,387**	**3,329**	**14,121**	**185,660**	**185,352**	**5,301**	**20,309**
Option-Cap-Floor-Collar-Swaption	520	400	3	10	334	219	0	7
Interest rate swap	179,122	178,987	3,326	14,111	185,326	185,133	5,301	20,302
Equity derivatives	**8,719**	**8,545**	**384**	**141**	**6,313**	**6,152**	**366**	**86**
Equity option	91	0	48	0	91	0	51	0
Other equity	8,628	8,545	336	141	6,222	6,152	315	86
Credit derivatives	**17**	**20**	**0**	**2**	**0**	**0**	**0**	**0**
Credit default swap	17	20	0	2	0	0	0	0
Commodity derivatives	**62**	**62**	**18**	**0**	**20**	**20**	**0**	**0**
TOTAL	**219,315**	**220,449**	**4,815**	**17,229**	**219,043**	**220,153**	**7,680**	**25,716**

d. Detail of derivatives designated as cash flow hedges

(EUR millions)	As at 31 December 2009				As at 31 December 2010			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
	To receive	To deliver			To receive	To deliver		
Foreign exchange derivatives	**2,492**	**2,081**	**159**	**262**	**991**	**1,111**	**28**	**257**
Foreign exchange forward	149	146	0	0	143	144	0	0
Foreign exchange future	0	0	0	0	0	0	0	0
Cross currency swap	2,270	1,850	157	262	848	967	28	257
Foreign exchange option	0	0	0	0	0	0	0	0
Foreign exchange forward rate agreement	73	85	0	0	0	0	0	0
Other currency (foreign exchange)	0	0	2	0	0	0	0	0
Interest rate derivatives	**24,162**	**20,662**	**310**	**712**	**14,128**	**14,137**	**224**	**625**
Option-Cap-Floor-Collar-Swaption	0	0	0	0	0	0	0	0
Interest rate swap	23,662	20,662	310	710	14,128	14,137	224	625
Forward rate agreement	500	0	0	2	0	0	0	0
TOTAL	**26,654**	**22,743**	**469**	**974**	**15,119**	**15,248**	**252**	**882**

(EUR millions)	As at 31 December 2009	As at 31 December 2010
Amount removed from equity and included in the carrying amount of a non-financial instrument, in the case of a CFH on a highly probable transaction	0	0

e. Detail of derivatives designated as hedges of a net investment in a foreign operation

None.

f. Detail of derivatives designated as portfolio hedges

(EUR millions)	As at 31 December 2009				As at 31 December 2010			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
	To receive	To deliver			To receive	To deliver		
Foreign exchange derivatives	0	5	0	0	0	0	0	0
Interest rate derivatives	295,910	295,906	3,536	3,284	221,776	221,774	4,385	4,450
TOTAL	**295,910**	**295,911**	**3,536**	**3,284**	**221,776**	**221,774**	**4,385**	**4,450**

4.2. Deferred taxes

a. Analysis by nature

(EUR millions)	2009	2010
Deferred tax assets before impairment	3,393	4,476
Impairment on deferred tax assets	(1,425)	(2,935)
Deferred tax assets (see note 2.6)[1]	**1,968**	**1,541**
Deferred tax liabilities (see note 3.5)[1]	**(5)**	**(9)**
TOTAL	**1,963**	**1,532**

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

The change in the net deferred tax position is mainly due to the recognition of deferred tax assets on the fair value reserve for available-for-sale securities and for derivatives designated as cash flow hedges as at 31 December 2010. This fair value reserve amounted to negative EUR 8,244 million as at 31 December 2010 compared with negative EUR 7,670 million as at 31 December 31 2009.

In 2010, the deferred tax assets on the fair value reserve for available-for-sale securities and for derivatives designated as cash flow hedges were subject to a EUR 530 million impairment as there was no prospect of recovering these taxes in the entities being managed in run-off.

b. Movements

(EUR millions)	2009	2010
As at 1 January	**2,590**	**1,963**
Charge/credit recognised in the income statement (see note 5.13)[1]	113	37
Effect of change in tax rates - impact on the income statement (see note 5.13)	0	0
Movements recognised directly in shareholders' equity	(705)	(495)
Effect of change in tax rates - impact on shareholders' equity	0	0
Change in consolidation scope	0	4
Translation adjustments	(31)	96
Other movements	(4)	(73)
As at 31 December	**1,963**	**1,532**

(1) In 2010, a deferred tax asset of USD 35 million was recognised on the Financial products portfolio, net of the deferred tax liability recognised on the change in the GICs.

c. Deferred taxes arising on balance sheet assets

	2009	2010	
(EUR millions)	Total	Total	Of which, change through profit or loss
Loans (and loan loss provisions)	(1,224)	(2,414)	(1,197)
Securities	1,004	1,297	116
Derivatives	(2,133)	(4,178)	(1,995)
Investments in associates	0	0	0
Tangible assets and intangible assets	(16)	(18)	(1)
Other asset specific to insurance companies	0	0	0
Accruals and other assets	14	25	10
TOTAL	**(2,355)**	**(5,288)**	**(3,067)**

d. Deferred taxes arising on balance sheet liabilities

	2009	2010	
(EUR millions)	Total	Total	Of which, change through profit or loss
Derivatives	3,585	6,522	2,864
Borrowings, deposits and issues of debt securities	860	1,219	351
Provisions	2	8	2
Pensions	7	7	0
Other liabilities specific to insurance companies	0	0	0
Regulatory provisions	(101)	(92)	9
Accruals and other liabilities	25	(15)	58
TOTAL	**4,378**	**7,649**	**3,284**

e. Deferred taxes arising on other items

(EUR millions)	2009 Total	2010 Total	2010 Of which, change through profit or loss
Tax losses carried forward	1,475	2,188	593
Entities with special tax status	(110)	(82)	28
TOTAL	**1,365**	**2,106**	**621**

4.3. Related-party transactions

a. Analysis by nature

(EUR millions)	Directors and key management		Parent company (Dexia)		Entities exercising joint control or significant influence over the entity[2]		Subsidiaries[3]		Associates[3]		Joint ventures in which the entity has an interest[3]		Other related parties[4]	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Loans[1]	1	1	2,017	1,892	13	20	0	0	0	0	1	1	19,864	22,710
Interest income on loans	0	0	26	16	6		0	0	0	0	0	0	59	158
Asset disposals			0	0	0	0	0	0	0	0	0	0	0	3,000
Losses on asset disposals			0	0	0	0	0	0	0	0	0	0	0	(302)
Deposits *	0	0	41	48	1,563	3,366	0	0	0	0	0	0	56,092	55,165
Interest expense on deposits	0	0	0	0	(38)	(60)	0	0	0	0	0	0	(839)	(549)
Net commissions **	0	0	0	0	36	34	0	0	0	0	0	0	4	4
Guarantees issued by the Group	0	0	0	0	0	0	0	0	0	0	0	0	24,162	23,396
Guarantees received by the Group	0	0	0	0	203	176	0	0	0	0	0	0	1,531	1,415

(1) Loans to key management personnel were granted at general market conditions.
(2) This refers to the main shareholders of Dexia in 2009 and 2010: Arco group, Holding Communal, Caisse des Dépôts group, CNP.
(3) This includes the non-consolidated investments listed in notes 1.2.b Non-consolidated subsidiaries, 1.2.d Joint companies not consolidated by the proportional method, and 1.2.f Associated companies not accounted for by the equity method.
(4) This item includes loans and borrowings with entities of Belgian and Luxembourg sub-groups consolidated by Dexia, the parent company of Dexia Crédit Local.
** Data for deposits with "Other related parties" for 2009 was updated.*
*** Data for net commissions received from "Entities exercising joint control or significant influence over the entity" for 2009 was updated.*

b. Transactions with the Belgian and French States

Guarantee mechanism covering Dexia's financing

On 9 December 2008, the French, Belgian and Luxembourg States and Dexia entered into a first demand guarantee agreement implementing the principles set forth in the protocol of 9 October 2008 between the three States and Dexia. Pursuant to this guarantee agreement, the three States guarantee severally, but not jointly, the performance by Dexia SA, Dexia Banque Internationale à Luxembourg, Dexia Bank Belgium and Dexia Crédit Local (and some of their branches and issuance vehicles) of their repayment obligations resulting from certain financings provided by central banks, credit institutions and other institutional or professional investors, provided that these financings were contracted or issued between 9 October 2008 and 31 October 2009 and mature no later than 31 October 2011.

The States guarantee the repayment obligations in the following proportions:

- (i) 60.5% for the Belgian State;
- (ii) 36.5% for the French State;
- (iii) 3.0% for the Luxembourg State.

To supplement the guarantee agreement on operational and procedural aspects, the three States and Dexia have signed an operational memorandum. This memorandum provides, among other things, for a process to monitor the guaranteed financings on a daily basis, including daily publication of the aggregate guaranteed amount and, with respect to Dexia's guaranteed bond issues, a system of eligibility certificates whereby the States issue, at Dexia's request, certificates confirming for each bond issue that it is covered by the guarantee mechanism.

On 19 November 2008, the European Commission authorised this guarantee mechanism for a period of six months as from 3 October 2008, with an automatic extension until the Commission's definitive decision, on condition that a restructuring plan be filed with the Commission. In March 2009, the three States confirmed the extension of the guarantee in accordance with the European Commission's decision of 13 March 2009.

By an addendum to the above-mentioned guarantee agreement of 9 December 2008, dated 14 October 2009, the Belgian, French and Luxembourg States and Dexia agreed to renew the guarantee scheme for a period of one year, covering financings contracted or issued no later than 31 October 2010. The parties also wished to effect certain changes to the guarantee in order to limit the States' intervention to a strict minimum and to allow an orderly exit from the guarantee mechanism within a credible timeframe. The changes include:

- (i) a decrease in the maximum total amount of guaranteed financings from EUR 150 billion to EUR 100 billion, with a commitment by Dexia to make its best efforts to limit actual utilisation to EUR 80 billion;
- (ii) the extension to four years of the maximum duration of the new financings contracted or issued under the terms of the revised guarantee;
- (iii) the waiver by Dexia of the benefit of the guarantee as from 16 October 2009 for all new contracts with a maturity of less than one month and all contracts with an indefinite term.

The guarantee agreement provided for the following remuneration to be paid by Dexia to the States:

- (i) for financings with a maturity of less than 12 months: 50bp per annum calculated on the average amount of guaranteed financings outstanding;
- (ii) for financings with a maturity of 12 months or more: 50bp per annum, increased by the lowest of the median of the Dexia 5Y CDS spread calculated between 1 January 2007 and 31 August 2008 and the median of the 5Y CDS spreads of all credit institutions with a long-term credit rating equivalent to that of Dexia, calculated on the average amount of guaranteed financings outstanding.

The renewal and modifications as provided for in the addendum of 14 October 2009 have been duly authorised by an interim decision of the European Commission for a period of four months with effect from 30 October 2009 (i.e. until 28 February 2010) or until the European Commission's final decision – if such decision is adopted prior to 28 February 2010 – in the context of the State aid enquiry opened on 13 March 2009.

By separate agreement dated 17 March 2010, the Belgian, French and Luxembourg States and Dexia amended and supplemented the above-mentioned addendum to the guarantee agreement of 14 October 2009 to reflect the terms of the European Commission's final decision in the context of the State aid enquiry of 26 February 2009.

The changes include:

- bringing forward the latest issue date for guaranteed financings to 31 May 2010 for financings with a maturity of less than 12 months, and to 30 June 2010 for financings with a maturity of more than 12 months;
- bringing forward the expiry date of the guarantee on deposits and equivalents to 1 March 2010;
- gradually increasing the remuneration payable by Dexia under the guarantee if the outstanding amount of repayment obligations guaranteed by the States exceeds certain thresholds (by 50bp if and to the extent that the amount exceeds EUR 60 billion but is less than EUR 70 billion, 65bp if and to the extent that the amount exceeds EUR 70 billion but is less than EUR 80 billion, and 80bp if the amount exceeds EUR 80 billion).

As of 30 June 2010, Dexia has fully exited the State guarantee liquidity mechanism. All outstanding instruments issued under the government guarantee mechanism before 30 June 2010 will continue to benefit from the government guarantee in accordance with their terms and conditions.

As at 31 December 2010, the total outstanding repayment obligations guaranteed by the States amounted to EUR 44 billion and Dexia Group had already paid total remuneration of EUR 380 million (of which EUR 340 million was paid by the Dexia Crédit Local Group) to the States for this guarantee.

All the above-mentioned agreements, as well as the total outstanding amount of guaranteed repayment obligations and the list of securities for which the States have issued eligibility certificates are available on the website www.dexia.com.

Guarantee covering the Financial products portfolio

Dexia entered into an agreement on 14 November 2008 for the sale of the insurance activities of Financial Security Assurance (FSA) to Assured Guaranty Ltd. (Assured). The sale was completed on 1 July 2009. FSA's Financial products activity, managed by FSA Asset Management (FSAM), was removed from the transaction scope and remains under Dexia's ownership.

In this context, the Belgian and French States agreed to provide a guarantee covering the Financial products asset portfolio.

The terms of this guarantee are set out in two agreements, the guarantee agreement relating to the Financial products portfolio of FSA Asset Management LLC and the guarantee reimbursement agreement, entered into by the Belgian and French States and Dexia. The key terms of these agreements are as follows:

- Dexia SA and Dexia Crédit Local SA entered into a put agreement whereby FSAM is entitled to sell to Dexia and/or Dexia Crédit Local certain assets included in the FSAM portfolio as at 30 September 2008 upon the occurrence of certain trigger events (asset default, liquidity default, collateral default or insolvency of Dexia);
- the Belgian and French States have each undertaken to guarantee, severally but not jointly, the obligations of Dexia SA pursuant to the put agreement up to an aggregate amount equal to USD 16.98 billion and up to 62.3711% for the Belgian State and 37.6289% for the French State;
- the portfolio to which this put relates is the FSAM portfolio after deduction of certain "excluded assets" for an amount of USD 4.5 billion, such that the face value of the assets included in the portfolio to which the put relates is equal to USD 9.7 billion as at 31 December 2010. Dexia therefore undertakes to cover a first loss tranche of USD 4.5 billion;
- the States are entitled to recover from Dexia the amounts that they pay pursuant to their guarantee. This recourse for the States can be exercised either in cash or in the form of instruments representing Dexia's equity (ordinary shares or profit shares);
- Dexia therefore issued subscription rights (warrants) to each of the States for a period of five years, allowing the States to be reimbursed through the issuance of new shares following the contribution in kind to Dexia of their right of reimbursement. The cancellation and re-issuance of the existing warrants for a further period of five years will be submitted each year for approval by the Shareholders' Meeting. In the event that the warrants are not re-issued, a penalty will be applied (the guarantee commission is increased by 500bp per annum for a period of two years);

- Dexia may also issue profit shares at the request of the States instead of shares. The profit shares would be issued at a price equal to the exercise price of the warrants, would not have voting rights, would be entitled to a special dividend and be convertible at the option of the States into ordinary Dexia shares, one for one. The terms of the profit shares were approved by the Dexia Extraordinary Shareholders' Meeting of 24 June 2009 and are set out in Article 4bis of Dexia's Articles of Association;

- Dexia must semi-annually pay to the States a guarantee fee at a rate of 1.13% per annum, calculated on the average amount of the FSAM portfolio (excluding the excluded assets) over a six-month period, plus a fee of 0.32% per annum calculated on the lower of: (i) the total amount of the liabilities pursuant to the Guaranteed Investment Contracts; and (ii) the average outstanding nominal amount of the FSAM portfolio (excluding the excluded assets) over a six-month period;

- the guarantee of the States in respect of an asset default or the insolvency of Dexia expires in 2035, unless the parties decide to extend the guarantee, while the guarantee in respect of a liquidity or collateral default expires on 31 October 2011.

This guarantee was approved by the European Commission on 13 March 2009.

In the year ended 31 December 2010, Dexia recognised an interest charge of EUR 110 million for this guarantee.

For a more detailed description of the guarantee covering the Financial products portfolio, see the Special Board report of 12 May 2009, as updated by the Special Board Report of 24 February 2010 relating to the first reissue of the warrants. Both reports are available on Dexia's website (www.dexia.com).

4.4. Compensation of key management personnel

(EUR millions)	2009	2010
Short-term benefits(1)	5	4
Post-retirement benefits(2)	1	0
Other long-term benefits	0	0
Termination benefits	0	0
Share-based payments(3)	0	0

(1) Includes salary, bonus and other benefits.
(2) Includes pension obligations calculated in compliance with IAS 19.
(3) Includes the cost of stock options and the discount granted on capital increases reserved for employees.

4.5. Acquisitions and disposals of consolidated companies

a. Acquisitions

No acquisitions with a material impact on the consolidated financial statements were made in 2010.

b. Disposals

No disposals with a material impact were made in 2010.

c. Information on Dexia banka Slovensko

On 11 November 2010, in accordance with the Dexia group's strategic divestment plan, Dexia Kommunalkredit Bank (a wholly-owned subsidiary of Dexia SA, via Dexia Crédit Local) entered into an agreement to sell its Dexia banka Slovensko subsidiary to Penta Investments Ltd.

This agreement provided for:

- the sale of the 88.71% of Dexia banka Slovensko held by Dexia Kommunalkredit Bank;

- clauses amending the transaction (price and cancellation options) depending on the outcome of the Ritro litigation;

- the purchase, by Dexia, of a EUR 110 million portfolio of Greek securities that were previously acquired by Dexia banka Slovensko from its parent company, Dexia Kommunalkredit Bank, without any impact on Dexia banka Slovensko's net assets.

The agreement also provides for funding adapted in such a way as to guarantee the transition: funding currently received by Dexia banka Slovensko by virtue of it being a Dexia Group subsidiary, and which would be changed on its exit from the Group, will be replaced by guaranteed funding with maturities of up to two years. Other existing funding will be maintained for the full term.

Considering the uncertainties as at 31 December 2010 surrounding the conditions for implementation of this agreement (Ritro litigation, authorisation, etc.), it was decided to continue to fully consolidate Dexia banka Slovensko as at 31 December 2010. Dexia banka Slovensko was also valued for provisioning purposes on the basis of its long-term value (EUR 82 million), giving rise to a EUR 3 million impairment in compliance with IAS 36 Impairment of Assets.

(EUR millions)	2010 Dexia banka Slovensko Assets and liabilities	2010 Dexia banka Slovensko Contribution to consolidated accounts
Cash, central banks and postal checking accounts	90	90
Interbank loans and advances	183	116
Customer loans and advances	1,851	1,851
Financial assets at fair value through profit or loss	40	40
Available-for-sale financial assets	331	331
Held-to-maturity financial assets	65	65
Derivatives	13	8
Tax assets	16	16
Other assets	36	36
Intercompany transactions: net liabilities less assets		(451)
Interbank borrowings and deposits	(673)	(297)
Customer borrowings and deposits	(1,662)	(1,662)
Financial liabilities at fair value through profit or loss	(8)	(8)
Derivatives	(29)	(19)
Debt securities	(122)	(32)
Subordinated debt	(47)	0
Other liabilities	(9)	(9)
NET ASSETS	**75**	**75**

4.6. Non-current assets held for sale

Non-current assets held for sale amounted to EUR 19 million as at 31 December 2010 and comprised assets obtained as a result of the restructuring of leasing transactions in the United States within Dexia Real Estate Capital Markets.

4.7. Share-based payments

	2009	2010
Dexia SA stock option plans (number of options)		
Outstanding at beginning of period	14,957,132	14,790,882
Granted during the period	0	0
Forfeited during the period	(166,250)	(849,575)
Exercised during the period	0	0
Adjustments(1)	0	704,250
Outstanding at the end of the period	**14,790,882**	**14,645,557**
Exercisable at the end of the period	**10,228,584**	**9,923,384**

2009				2010			
Range of exercise prices	Number of outstanding options	Weighted average exercise price (EUR)	Weighted average remaining contractual life (years)	Range of exercise prices(1)	Number of outstanding options	Weighted average exercise price (EUR)	Weighted average remaining contractual life (years)
10.97 - 11.37	1,546,885	11.37	3.40	10.47 - 10.85	1,568,682	10.85	2.40
11.88 - 13.66	5,100,986	13.49	5.40	11.34 - 13.04	5,259,558	12.88	4.40
13.81 - 14.58	647,800	14.58	0.92	13.18 - 13.92	0	0.00	0.00
17.23 - 17.86	880,761	17.86	2.00	16.45 - 17.05	902,594	17.05	1.00
18.03 - 18.20	2,296,250	18.03	5.49	17.21 - 17.37	2,405,583	17.21	4.49
18.20 - 18.62	2,022,000	18.62	6.50	17.77 - 20.28	2,118,275	17.77	5.50
23.25	2,296,200	0.00	7.50	22.19	2,390,865	22.19	6.50
TOTAL	**14,790,882**			**TOTAL**	**14,645,557**		

(1) In order to protect the holders of share options against the adverse economic effects arising from the issue of shares for the payment of bonuses, following the decision taken by Dexia's Extraordinary Shareholders' Meeting held on 12 May 2010, the exercise price of the stock options was reduced and the number of options increased in accordance with an adjustment ratio established in compliance with the Euronext NYSE Liffe's Corporate Actions Policy.

Dexia stock option plans

(EUR millions)	2009	2010
Equity-settled arrangements	2	0
Cash-settled arrangements[1]	0	0
Arrangements with alternative settlements	0	0
TOTAL EXPENSES	2	0

Amounts included in expense for the year

(EUR millions)	2009	2010
Dexia Crédit Local Group 2003 plan	0	0
Dexia Crédit Local Group 2004 plan	0	0
Dexia Crédit Local Group 2005 plan	0	0
Dexia Crédit Local Group 2006 plan	0	0
Dexia Crédit Local Group 2007 plan	1	0
Capital increase	1	0
Dexia contribution	0	0
NET EXPENSE	**2**	**0**

4.8. Capital stock

	2009	2010
Number of shares authorised	87,045,757	87,045,757
Number of shares issued and fully paid	87,045,757	87,045,757
Number of shares issued and not fully paid	0	0
Par value of the shares	5.75	5.75
In issue as at 1 January	**87,045,757**	**87,045,757**
Number of shares issued	0	0
Number of shares cancelled	0	0
In issue as at 31 December	**87,045,757**	**87,045,757**
Rights, preferences and restrictions, including restrictions on the distribution of dividends and repayment of capital	0	0
Number of shares of treasury stock	0	0
Number of shares reserved for issue under stock options and contracts for the sale of shares[1]	NA	NA

(1) Under Dexia Crédit Local's stock option plans, these are Dexia SA shares that are granted to employees.

4.9. Exchange rates

The main exchange rates are presented in the table below.

		2009		2010	
		Closing rate(1)	Average rate(2)	Closing rate(1)	Average rate(2)
Australian dollar	AUD	1.60277	1.76414	1.31178	1.43878
Canadian dollar	CAD	1.51040	1.58302	1.33456	1.36752
Swiss franc	CHF	1.48315	1.50762	1.24895	1.37004
Czech koruna	CZK	26.45148	26.53148	25.04247	25.24192
Danish krone	DKK	7.44230	7.44639	7.45305	7.44773
British pound sterling	GBP	0.88789	0.89076	0.85732	0.85702
Hong Kong dollar	HKD	11.16481	10.82205	10.41439	10.27180
Hungarian forint	HUF	270.68460	281.78228	278.32403	276.21573
Israeli shekel	ILS	5.44911	5.47402	4.74575	4.92834
Japanese yen	JPY	133.44530	130.55728	108.76902	115.26745
Korean won	KRW	1,678.97309	1,768.26884	1,500.56501	1,531.11733
Mexican peso	MXN	18.84447	18.89957	16.54782	16.70252
Norwegian krone	NOK	8.29973	8.70833	7.80653	8.00476
New Zealand dollar	NZD	1.98108	2.20812	1.72450	1.83432
Swedish krona	SEK	10.25137	10.58813	8.97947	9.48840
Singapore dollar	SGD	2.01953	2.02410	1.71742	1.79546
New Turkish lira	TRY	2.14270	2.15054	2.05510	1.98803
US dollar	USD	1.43985	1.39615	1.33990	1.32212

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

5. Notes on the income statement

5.1. Interest income - Interest expense (items I and II - income statement)

(EUR millions)	2009	2010
INTEREST INCOME	**32,297**	**24,988**
a) Interest income on assets not measured at fair value	**10,878**	**9,541**
Cash, central banks and postal checking accounts	19	12
Interbank loans and advances	555	360
Customer loans and advances	7,929	7,303
Available-for-sale financial assets	2,009	1,481
Held-to-maturity financial assets	50	43
Impaired assets	46	106
Other	270	236
b) Interest income on assets measured at fair value	**21,419**	**15,447**
Held-for-trading loans and securities	125	78
Loans and securities designated at fair value	13	11
Held-for-trading derivatives	9,121	6,308
Hedging derivatives	12,160	9,050
INTEREST EXPENSE	**(30,999)**	**(24,374)**
a) Interest expense on liabilities not measured at fair value	**(8,352)**	**(7,606)**
Interbank borrowings and deposits	(1,712)	(1,103)
Customer borrowings and deposits	(287)	(208)
Debt securities	(5,892)	(5,746)
Subordinated debt	(116)	(83)
Preferred shares and hybrid capital	0	0
Amounts covered by sovereign guarantees	(312)	(450)
Other	(33)	(16)
b) Interest expense on liabilities measured at fair value	**(22,647)**	**(16,768)**
Held-for-trading liabilities	0	0
Liabilities designated at fair value	(266)	(238)
Held-for-trading derivatives	(9,242)	(6,678)
Hedging derivatives	(13,139)	(9,852)
NET INTEREST INCOME	**1,298**	**614**

5.2. Fees and commissions (items III and IV - income statement)

	2009			2010		
(EUR millions)	Income	Expense	Net	Income	Expense	Net
Lending activity	54	(7)	47	63	(9)	54
Insurance activity and broking	45	(2)	43	42	(1)	41
Purchase and sale of securities	0	(3)	(3)	0	(4)	(4)
Purchase and sales of mutual fund units	3	0	3	4	0	4
Management of mutual funds	0	0	0	0	0	0
Administration of mutual funds	0	0	0	0	0	0
Payment services	10	(8)	2	10	(13)	(3)
Commissions paid to business providers	0	0	0	0	0	0
Financial engineering	10	0	10	9	0	9
Services on securities other than custodial services	0	(3)	(3)	1	(4)	(3)
Custodial services	2	(2)	0	1	(2)	(1)
Issuance and underwriting of securities	3	(1)	2	2	0	2
Securitisation commissions	0	0	0	0	0	0
Private banking	0	0	0	0	0	0
Clearing and settlement-delivery	2	0	2	2	0	2
Intermediation on repos and reverse repos	1	(1)	0	1	(1)	0
Other	19	(14)	5	23	(13)	10
TOTAL	**149**	**(41)**	**108**	**158**	**(47)**	**111**

5.3. Net gains (losses) on financial instruments at fair value through profit or loss (item V - income statement)

(EUR millions)	2009	2010
Net trading income	484	16
Net result of hedge accounting	(3)	1
Net result of financial instruments designated at fair value through profit or loss *	33	(35)
Change in own credit risk	(123)	23
Net result of foreign exchange transactions	(54)	(64)
TOTAL	**337**	**(59)**
** Of which, trading derivatives included in a fair value option strategy*	*(564)*	*82*

All interest received and paid on assets, liabilities and derivatives is recorded in net interest income, as required by IFRS.

Thus, net gains (losses) on trading transactions and net gains (losses) on hedging transactions include only the change in the clean value of derivatives, the revaluation of assets and liabilities qualified as hedges and the revaluation of the held-for-trading portfolio.

Analysis of net result of hedge accounting

(EUR millions)	2009	2010
Fair value hedges	(6)	1
Change in fair value of hedged item attributable to the hedged risk	(4,672)	5,927
Change in fair value of hedging derivatives	4,666	(5,926)
Cash flow hedges	0	0
Change in fair value of hedging derivatives – ineffective portion	0	0
Discontinuation of cash flow hedge accounting (cash flows no longer expected to occur)	0	0
Hedges of net investments in a foreign operation	0	0
Change in fair value of hedging derivatives – ineffective portion	0	0
Portfolio hedge	3	0
Change in fair value of hedged item	(898)	574
Change in fair value of hedging derivatives	901	(574)
TOTAL	**(3)**	**1**
Amounts recycled in net interest income from the fair value reserve on cash flow hedges (on derivatives for which the hedging relationship has been interrupted)	*11*	*6*

5.4. Net gains (losses) on financial assets available for sale (item VI - income statement)

(EUR millions)	2009	2010
Dividends on available-for-sale securities	7	8
Net gain on disposals of available-for-sale loans and securities[1]	61	(537)
Impairment of available-for-sale variable-income securities	(10)	(3)
Net gain on disposals of held-to-maturity securities	0	0
Net gain on disposals of debt securities	23	51
TOTAL	**81**	**(481)**

(1) In 2010, this item includes notably losses of EUR 508 million on asset disposals made in connection with the policy of reducing the Group's overall exposure.

5.5. Other income (item VII - income statement)

Income included in the technical margin of insurance companies (EUR millions)	2009	2010
Premiums and subscription fees received[1]	28	0
Charges to provisions - reinsurers' share	0	0
Changes in technical reserves - reinsurers' share	0	0
Other technical income	0	0
TOTAL	**28**	**0**

(1) Premiums and subscription fees received correspond to the results of FSA's Financial Guaranty business sold to Assured in 2009, i.e. one quarter's business in 2009.

Other operating income (EUR millions)	2009	2010
Changes in inventory	0	0
Operating taxes	0	0
Lease income	24	32
Other banking income	0	0
Other income	13	20
TOTAL	**37**	**52**
TOTAL OTHER INCOME	**65**	**52**

5.6. Other expenses (item VIII - income statement)

Expenses included in the technical margin of insurance companies (EUR millions)	2009	2010
Premiums received transferred to reinsurers[1]	(3)	0
Premiums and subscription fees paid	0	0
Charges to provisions	0	0
Adjustments of technical reserves	0	0
Other technical expenses	0	0
TOTAL	**(3)**	**0**

(1) Premiums and subscription fees received correspond to the results of FSA's Financial Guaranty business sold to Assured in 2009, i.e. one quarter's business in 2009.

Other operating expense (EUR millions)	2009	2010
Changes in inventory	0	0
Operating taxes	0	0
Maintenance and repair of investment property that generated income during the year	0	0
Other banking expenses	0	(1)
Other expenses	(34)	(47)
TOTAL	**(34)**	**(48)**
TOTAL OTHER EXPENSES	**(37)**	**(48)**

5.7. Operating expenses (item X - income statement)

(EUR millions)	2009	2010
Payroll costs	(317)	(286)
General and administrative expenses	(178)	(187)
Deferred acquisition expenses	(7)	0
TOTAL	**(502)**	**(473)**

a. Payroll costs

(EUR millions)	2009	2010
Compensation and salary expense	(217)	(207)
Social security and insurance expense	(67)	(49)
Employee benefits	(11)	(15)
Restructuring costs	(7)	(1)
Other	(15)	(14)
TOTAL	**(317)**	**(286)**

Employee information

	2009			2010		
(Average full-time equivalent)	**Fully consolidated**	**Proportionally consolidated**	**Total**	**Fully consolidated**	**Proportionally consolidated**	**Total**
Executive staff	44	4	48	52	4	56
Administrative staff	3,379	15	3,394	3,309	19	3,328
Non-administrative and other personnel	8	0	8	11	0	11
TOTAL	**3,431**	**19**	**3,450**	**3,372**	**23**	**3,395**

	2009						
(Average full-time equivalent)	**France**	**Italy**	**Spain**	**Rest of Europe**	**United States**	**Rest of world**	**Total**
Executive staff	24	3	1	13	2	5	48
Administrative staff	1,935	226	48	909	184	92	3,394
Non-administrative and other personnel	0	0	0	3	0	5	8
TOTAL	**1,959**	**229**	**49**	**925**	**186**	**102**	**3,450**

	2010						
(Average full-time equivalent)	**France**	**Italy**	**Spain**	**Rest of Europe**	**United States**	**Rest of world**	**Total**
Executive staff	27	2	1	12	9	5	56
Administrative staff	1,794	208	48	1,004	202	72	3,328
Non-administrative and other personnel	0	0	0	4	2	5	11
TOTAL	**1,821**	**210**	**49**	**1,020**	**213**	**82**	**3,395**

b. General and administrative expenses

(EUR millions)	2009	2010
Cost of premises	(8)	(6)
Rent expense [1]	(20)	(19)
Fees	(42)	(41)
Marketing, advertising and public relations	(12)	(12)
IT expense	(28)	(28)
Software, research and development	(10)	(10)
Maintenance and repairs	(8)	(7)
Restructuring costs	15	0
Insurance (except related to pensions)	(2)	(3)
Stamp duty	(4)	(3)
Other taxes	(28)	(15)
Other general and administrative expenses	(31)	(43)
TOTAL	**(178)**	**(187)**
of which, maintenance and repair expenses for investment property that did not generate income during the year	0	0

(1) This amount does not include IT equipment rental expenses, which are included in the "IT expense" line.

5.8. Depreciation, amortisation and impairment of tangible assets and intangible assets (item XI - income Statement)

Depreciation and amortisation (EUR millions)	2009	2010
Depreciation of investment property	0	0
Depreciation of land and buildings, office furniture and other equipment	(9)	(9)
Depreciation of computer equipment	0	0
Depreciation of other tangible assets	(11)	(10)
Amortisation of intangible assets	(32)	(30)
TOTAL	**(52)**	**(49)**

Impairment

None.

TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT	**(52)**	**(49)**

5.9. Cost of risk (item XIII - income Statement)

	2009			2010		
(EUR millions)	Collective impairment	Specific impairment and losses	Total	Collective impairment	Specific impairment and losses	Total
Credit (loans, commitments and held-to-maturity securities)	(8)	(355)	(363)	145	(598)	(453)
Credit enhancement	0	(272)	(272)	0	0	0
Available-for-sale fixed-income securities		5	5		10	10
TOTAL	**(8)**	**(622)**	**(630)**	**145**	**(588)**	**(443)**

In 2010, cost of risk includes:

- an additional provision of EUR 559 million on the Financial products portfolio, making a total impairment of EUR 2,006 million as at 31 December 2010;
- a EUR 156 million write-back of sector and collective provisions;
- a charge of EUR 50 million in respect of the Group's banking activities.

Detail of collective and specific impairment

Collective impairment (EUR millions)	2009			2010		
	Additions	Recoveries	Total	Additions	Recoveries	Total
Held-to-maturity loans and securities	(174)	166	(8)	(168)	313	145
Off-balance sheet commitments	0	0	0	0	0	0
Total credit	**(174)**	**166**	**(8)**	**(168)**	**313**	**145**
Credit enhancement	0	0	0	0	0	0
TOTAL	**(174)**	**166**	**(8)**	**(168)**	**313**	**145**

Specific impairment (EUR millions)	2009				Total
	Additions	Recoveries	Losses	Collections	
Interbank loans and advances	0	0	0	0	0
Customer loans and advances	(488)	161	(31)	3	(355)
Held-to-maturity financial assets	0	0	0	0	0
Accruals and other assets	0	0	0	0	0
Off-balance sheet commitments	0	0	0	0	0
Total credit	**(488)**	**161**	**(31)**	**3**	**(355)**
Credit enhancement	**(272)**	**0**	**0**	**0**	**(272)**
Fixed-income securities	**(3)**	**8**	**0**	**0**	**5**
TOTAL	**(763)**	**169**	**(31)**	**3**	**(622)**

Specific impairment (EUR millions)	2010				Total
	Additions	Recoveries	Losses	Collections	
Interbank loans and advances	0	0	0	0	0
Customer loans and advances	(908)	363	(61)	8	(598)
Held-to-maturity financial assets	0	0	0	0	0
Accruals and other assets	0	0	0	0	0
Off-balance sheet commitments	0	0	0	0	0
Total credit	**(908)**	**363**	**(61)**	**8**	**(598)**
Credit enhancement	**0**	**0**	**0**	**0**	**0**
Fixed-income securities	**(10)**	**20**	**0**	**0**	**10**
TOTAL	**(918)**	**383**	**(61)**	**8**	**(588)**

5.10. Income from associates (item XV - income statement)

(EUR millions)	2009	2010
Income before tax	17	0
Taxes	(4)	0
Impairment on goodwill	(14)	0
TOTAL	**(1)**	**0**

5.11. Net gains (losses) on other assets (item XVI - income statement)

(EUR millions)	2009	2010
Net gains (losses) on disposals of buildings	0	0
Net gains (losses) on disposals of other fixed assets	0	1
Net gains (losses) on disposals of consolidated equity investments [1]	(102)	30
TOTAL	**(102)**	**31**

(1) In 2010, this item comprises:
– a EUR 33 million reversal of provision for sundry expenses associated with the disposal of FSA's insurance business;
– a negative EUR 3 million value adjustment in respect of Dexia banka Slovensko, based on expected cash flows for this business.

5.12. Impairment on goodwill (item XVII - income statement)

(EUR millions)	2009	2010
Impairment on goodwill	(6)	0
TOTAL	**(6)**	**0**

In 2009, the goodwill on Dexia banka Slovensko and Dexia Kommunalkredit Polska were fully written down for respectively EUR 4 million and EUR 2 million.

5.13. Corporate income tax (item XIX - income statement)

Detail of tax expense (EUR millions)	2009	2010
Current taxes	(137)	(47)
Deferred taxes	(120)	44
Tax on prior years' income	11	(4)
Deferred taxes on prior years	49	(7)
Provisions for tax litigations	(42)	32
TOTAL	**(239)**	**18**

2010 effective tax expense

The corporate tax rate in France is 34.43%. The rate applied to contributions from foreign subsidiaries is that applied locally in accordance with each national legislation.

The average tax rate for 2010 was -2.35%.

The variance compared with the French tax rate can be analysed as follows:

(EUR millions)	2009	2010
Income before income taxes	**559**	**(745)**
Net income from associates	(1)	0
Impairment on goodwill	(6)	0
Tax base	**566**	**(745)**
Applicable tax rate at the period end	34.43%	34.43%
Theoretical corporate income tax at the standard rate	**195**	**(257)**
Impact of differences between foreign tax rates and the standard French tax rate	(57)	(7)
Tax effect of non-deductible expenses	39	53
Tax effect of non-taxable income	(189)	(94)
Impact of items taxed at a reduced rate	(52)	(103)
Other additional taxes or tax savings	30	(379)
Impairment of deferred tax assets [(1)]	231	801
Liability method	0	0
Provision for tax litigation	42	(32)
Corporate income tax recorded in the income statement	**239**	**(18)**
EFFECTIVE TAX RATE	**42.20%**	**– 2.35%**

(1) In 2009 and 2010, the deferred tax assets of several entities were provisioned as a result of the policy to scale back their activity.

Tax consolidation group

Dexia Établissement Stable in France is the head of the tax group consolidating the following companies:

- Dexia Crédit Local
- Floral
- CLF Immobilier(1)
- Compagnie pour le Foncier et l'Habitat
- CLF Marne la Vallée Participation
- Dexia Éditions
- Dexia Municipal Agency
- Dexia CLF Développement
- Genebus Lease
- Dexia CLF Organisation
- Dexia CLF Avenir
- Dexia Habitat
- CBX Gest
- Dexint Développement
- Dexia Flobail
- Dexia Bail
- Dexia Sofaxis
- Guide Pratique de la Décentralisation
- CBX. IA 1
- CBX. IA 2
- DCL Investissements
- DCL Projets
- Dexiarail
- Dexia CLF Banque(2)
- Dexia DS Formation(2)
- Dexia DS Services(2)
- PubliServices(2)

(1) Ex-Dexia CLF Immo
(2) Added in 2010

Tax savings arising from the netting off of the profits and losses of companies within the tax group are recognised as a profit in the accounts of Dexia Établissement Stable (out of the Dexia Crédit Local scope).

5.14. Earnings per share

a. Basic earnings per share

Basic earnings per share are obtained by dividing "Net income Group share" by the weighted average number of ordinary shares in issue during the year, less the average number of ordinary shares purchased by the company and held as treasury stock.

	2009	2010
Net income Group share (EUR millions)	269	(696)
Weighted average number of ordinary shares (millions)	87	87
Basic earnings per share (EUR)	3.09	(7.99)

b. Diluted earnings per share

Diluted earnings per share are calculated by adjusting the average number of ordinary shares in issue to reflect the potential conversion into dilutive ordinary shares of the options granted to employees.

For stock options, the calculation of the number of shares that could have been acquired at fair value (calculated as the average annual share price) is based on the monetary value of the subscription rights attached to the outstanding options.

The number of shares calculated in the manner described above is compared with the number of shares that would have been issued assuming the options were exercised.

No adjustments were made to "Net income Group share" as there were no financial instruments convertible into Dexia Crédit Local shares.

	2009	2010
Net income Group share (EUR millions)	269	(696)
Weighted average number of ordinary shares (millions)	87	87
Adjustment for stock options (millions)	0	0
Weighted average number of ordinary shares used for the calculation of diluted earnings per share (millions)	87	87
Diluted earnings per share (EUR)	3.09	(7.99)

6. Notes on off-balance sheet items

6.1. Regular way trades

(EUR millions)	2009	2010
Assets to be delivered	3,625	2,379
Liabilities to be received	4,980	3,503

6.2. Guarantees

(EUR millions)	2009	2010
Guarantees given to credit institutions	989	693
Guarantees given to customers	7,869	6,295
Guarantees received from credit institutions	579	1,676
Guarantees received from customers	22,420	16,781
Guarantees received from States	46,827	48,561

6.3. Loan commitments

(EUR millions)	2009	2010
Loan commitments given to credit institutions	624	247
Loan commitments given to customers	39,589	30,168
Loan commitments received from credit institutions (1)	10,807	3,858
Loan commitments received from customers(1)	0	0

(1) 2009 data has been updated.

6.4. Other commitments

(EUR millions)	2009	2010
Insurance activity - commitments given	0	0
Insurance activity - commitments received	0	0
Banking activity - commitments given	79,124	67,169
Banking activity - commitments received	29,524	38,657

7. Notes on exposure to risk as at 31 December 2010

7.0. Risk exposures and hedging strategies

RISK FACTORS AND MANAGEMENT

1. GOVERNANCE

In 2010, the reorganisation of the risk management function was effectively implemented, using an approach that reflects the Dexia Group's new general organisation. It is now organised along a directive model under which the Chief Risk Officers of the international entities report directly to the Chief Risk Officer of Dexia Crédit Local, who reports directly to the Group Chief Risk Officer. Against this background, the roles of the Risk Management function have been revised, and the function is now responsible for definition of Dexia's risk appetite, implementation of independent and consolidated risk metrics for all types of risk, management of all risks and identification and proactive management of any emerging risk.

The function has been reorganised into cross-divisional business lines: Public and Wholesale Banking credit risk, Retail and Commercial Banking credit risk and financial risk on all Financial Markets activities. This organisation is based around knowledge centres that can be used by the local Risk Management departments, under the terms of service level agreements (SLAs) entered into in 2010.

The Chief Risk Officer of Dexia Crédit Local is also Director of Public and Wholesale Banking credit risk for the Dexia Group.

1.1. Credit risk

Definition

Credit risk represents the potential loss (decrease in the value of the asset or default of payment) that Dexia Crédit Local may incur due to the deterioration of a counterparty's solvency.

Organisation

The Dexia Crédit Local Risk Management department oversees Dexia Crédit Local's credit risk, under the aegis of the Management Board and a number of specialised committees. It contributes actively to the Group Risk Management department's development of the definition of the Group's credit risk policy. It defines the rules for the delegation of powers within Dexia Crédit Local and its subsidiaries and branches, and has them approved by the Group Risk Management department. It oversees the counterparty credit rating and credit proposal analysis processes and the exposure monitoring functions.

In 2010, in order to enhance its effectiveness and make the best of the expertise available within the Group, the risk management function moved toward an organisation based around specialised expert centres, in conjunction with the various Dexia business lines (Retail and Commercial Banking, Public and Wholesale Banking and Financial Markets activities). Risk committees specialised by expert centres have been established, and are coordinated by Group-wide staff and committees.

Central Analysis Cells (CAC), specialised by type of counterparty (project, corporate, bank, asset-backed securities, international public sector and country), have been established at Group level to pool available expertise and provide all Group entities – and therefore Dexia Crédit Local itself – with all of the analyses they will need. All decisions concerning these counterparties (commitments, provisioning) will remain the responsibility of the different entities and of Dexia Crédit Local in particular.

Analysis of matters not within the purview of the CACs is performed directly by Dexia Crédit Local and its subsidiaries and branches.

Group-wide committees

Three Group-wide committees participate in the risk management process:

- the Risk Policy Committee (quarterly) sets the rules for credit approval for the various sectors and types of counterparties;
- the Risk Executive Committee (weekly) is responsible for defining risk management strategy and the organisation of the function;
- the Management Credit Committee is responsible for commitment decisions.

The Dexia Crédit Local Chief Risk Officer is a member of the Risk Executive Committee.

Specialised committees by expert centre

In order to streamline the decision-making process, the Management Credit Committee delegates its decision-making authority to the Dexia Crédit Local Credit Committee for transactions pertaining to the Public and Wholesale Banking business line (this committee is chaired by the Chief Risk Officer of Dexia Crédit Local or his deputy) and to the Treasury and Financial Markets (TFM) Credit Committee organised at the Group level for all banking and insurance counterparties and for ABS. The Dexia Crédit Local Chief Risk Officer or his representative participates systematically in all TFM Credit Committees, approves all proposals concerning Dexia Crédit Local and has veto power over these proposals.

This delegation is subject to specific rules, depending on the type of counterparty, the counterparty credit rating level and the exposure to credit risk. The Management Credit Committee is the decision-making body of last resort for all credit proposals involving very large amounts or high-risk credits. Each proposal submitted to a Credit Committee includes an independent analysis performed by the Risk Management department presenting the main risk indicators and a qualitative analysis of the transaction. Credit approval procedures have been updated as per the request of the European Commission to ensure that a 10% minimum Risk Adjusted Return on Capital (RAROC) is obtained on all Public and Wholesale Banking transactions.

Dexia Crédit Local also delegates authority for decisions regarding public sector-type counterparties to certain subsidiaries and branches.

Parallel to the approval process, various committees are responsible for monitoring specific risks. These committees are organised by expert centre and/or entity and meet on a quarterly basis:

- Watchlist Committees monitor "sensitive" assets that have been placed under active surveillance: the Dexia Crédit Local Watchlist Committee monitors sensitive Public and Wholesale Banking assets whose exposure lies below a certain threshold, while the Public and Wholesale Banking Watchlist Committee monitors sensitive assets whose exposure lies above that threshold. The Chief Risk Officer of Dexia Crédit Local is also a member of the Public and Wholesale Banking Watchlist Committee and approves all decisions concerning Dexia Crédit Local counterparties;
- Default Committees qualify and monitor all counterparties in default in accordance with the Basel II regulatory framework, employing the prevailing rules applied by Dexia: the Dexia Crédit Local Default Committee monitors defaults whose exposure lies below a certain threshold, which varies with the type of counterparty, while the Public and Wholesale Banking Default Committee monitors sensitive assets whose exposure lies above that threshold. The Chief Risk Officer of Dexia Crédit Local is a member of the Public and Wholesale Banking Default Committee and approves all decisions concerning Dexia Crédit Local counterparties;
- Reserves Committees established at the Group or Head Entity level approve the amount of reserves allocated and calculate the cost of risk for those entities within the scope of their authority;
- Credit Ratings Committees, organised at the Group level, ensure that the internal credit rating systems are applied correctly and that the credit rating process is appropriate to the risk borne by the counterparties. The Dexia Crédit Local Risk Management department attends all Credit Ratings Committees.

1.2. Market risk

Definition

Dexia Crédit Local's market risk reflects its exposure to changes in market parameters such as interest rates and exchange rates.

Interest rate risk includes both general risk on changes in market interest rates and specific risk (spread risk) on changes in the spread on a particular issuer within a rating category. Equity risk reflects the risk of the potential decline in the value of shares held. Currency risk reflects the potential decline in value due to fluctuations in foreign exchange rates.

Organisation

The policies, directives and procedures documenting and framing each activity are defined by Dexia SA and approved by Dexia Crédit Local. The central teams organised in expert centres or Group-wide teams are also responsible for defining the methodology for establishing the income statement and measuring risk, and for the consolidated measurement, reporting and monitoring of the risks and results of each of the activities for which they are responsible.

The Risk Management department, and most notably the Financial Markets Risk Management unit (FMR), oversees all market risk under the aegis of Dexia Crédit Local's Management Board and a number of specialised risk committees. FMR is an integrated function within the Risk Management function. With its comprehensive approach to risk management, it is responsible for identifying, analysing, monitoring and reporting all risks and results (including the valuation aspect) related to financial markets activities.

The FMR units of Dexia Crédit Local and its subsidiaries and branches are responsible for day-to-day operations i.e., among other things, implementing the policies and directives defined at the Dexia SA level, as well as, at the local level, measuring and monitoring risk (calculating risk indicators, verifying limits and triggers, etc.), reporting and reconciliations with the Financial Control and Accounting departments and with the local information system. They are also responsible for monitoring and reporting to all local control and regulatory bodies.

Committees

The Market Risk and Guidelines Committee (MRGC) meets monthly and addresses a broad range of topics: analysis of risk and profit and loss trigger(1) reports and related decisions; definition and revision of approval limits; proposed approvals of all new products; discussion of risk directives, governance and standards; risk concepts; risk measurement methods; and quality of the risk measurement processes. The Chief Market Risk Officer of Dexia Crédit Local attends the MRGC and approves all decisions made on behalf of Dexia Crédit Local.

Ad hoc MRGCs may be organised as required to address specific operational or risk management issues.

In addition to the monthly MRGC, a specific MRGC meets once a quarter to review reports on activity and risk management by type of business within the Treasury and Financial Markets activity.

The Dexia Market Risk Committee (DMRC) meets every two weeks and acts as the supervisory committee for the MRGC.

The Risk Policy Committee and the Risk Management Executive Committee validate all material changes to be made to the risk profile or to the governance of risk.

1.3. Balance sheet management

Definition

Balance Sheet Management (BSM) includes all of the structural risks on the banking book, i.e. interest rate, currency, equity and liquidity risk.

The detailed definitions of structural and specific interest rate risk, currency risk and equity risk are provided in the section on market risk.

Liquidity risk measures the Bank's ability to satisfy all of its expected and unexpected current and future cash needs.

Organisation

Within the Finance function of Dexia Crédit Local Paris, the BSM department is responsible for managing all risks related to the balance sheet structure of Dexia Crédit Local at the local, parent company and consolidated levels, i.e. all interest rate, currency and liquidity risks other than those risks stemming from the Bank's financial markets activities.

Within the Risk Management department of Dexia SA, the role of BSM Risk Management is to define the risk framework under which risk management can be conducted by BSM Finance (risk factors, limits, investment universe, guidelines, etc.); validate the models used in the effective management of this risk; monitor all exposures and ensure their compliance with Group norms; define the stresses to be applied to the various risk factors; challenge the risk management carried out by the Finance function, and ensure that the framework is compliant with all applicable external regulations throughout the entire Group.

Committees

Three committees are responsible for monitoring BSM risk.

The Dexia ALM Committee (Group Assets and Liabilities Committee, or Group ALCO) meets monthly. It establishes the overall framework for risk, sets limits, guarantees the consistency of the strategy, establishes the overall level of exposure in line with the risk appetite defined by the Management Board of Dexia SA and validates the transfer pricing mechanisms employed within the Dexia Group. It delegates operational implementation to the Dexia Crédit Local ALCO and the ALCOs of the international entities. Dexia Crédit Local is represented on the Group ALCO by either its CEO or its Chief Risk Officer.

By delegation from the Group ALCO, the Funding and Liquidity Committee (FLC) centralises and coordinates the decision-making process for all liquidity-related issues. The FLC is in charge of monitoring the Group's liquidity position and ensuring that all needs are covered by short-, medium- and long-term resources. It monitors the attainment of the liquidity targets set by the Group Management Board and develops funding, divestiture and structuring strategies that will enable the Group to overcome all regulatory and internal stresses. The FLC, which meets on a bimonthly basis, takes all measures possible to improve the Group's liquidity profile. Acting as knowledge centre for liquidity, Group BSM Finance transmits the information submitted by each entity, incorporates notably the specificities of each Dexia Crédit Local entity and centralises this information in order to permit funding conditions and the use of reserves to be optimised to the greatest extent possible.

The Dexia Crédit Local ALM Committee (Dexia Crédit Local ALCO) meets monthly. The Group ALCO delegates authority to the Dexia Crédit Local ALCO for the monitoring and operational management of balance sheet risks (interest rate, currency, liquidity, etc.) at the consolidated Dexia Crédit Local level. As such, the Dexia Crédit Local ALCO, which is composed of the Chief Executive Officer and/or the Chief Risk Officer, the CFO and the EVP-Financial Markets, is responsible for:

(1) Loss triggers alert staff to a deterioration of earnings, and are expressed as a percentage of VaR limits, i.e. generally 50%, 75% and 100% for triggers 1, 2 and 3, and discontinuation of activity at 300% of VaR.

- management of the balance sheet risk of all Dexia Crédit Local Level 1 entities (the Dexia Crédit Local parent company [Dexia Crédit Local Paris], Dexia Crédit Local Dublin, Dexia Municipal Agency, Dexia Kommunalkredit Bank, Dexia Crédit Local Tokyo and the French subsidiaries);
- monitoring the management of the balance sheet risk of all Dexia Crédit Local Level 2 entities (Dexia Crédit Local New York, Dexia Financial Products, Dexia Kommunalbank Deutschland, Dexia banka Slovensko, Dexia Israel Bank, Dexia Crediop and Dexia Sabadell);
- providing coordination between Group ALCO and local ALCOs: implementation of decisions, transmission of information, etc.

Dexia Crédit Local ALCO decisions are implemented at the local level during ALCO meetings for those entities with their own BSM unit, or during Finance Committee meetings for all others. At Dexia Crédit Local Paris, Interest Rates and Liquidity Committees meet twice a month. These committees are composed of the CFO of Dexia Crédit Local Paris or his representative, and representatives from the Risk Management and Financial Markets departments. The committee's main role is to regularly monitor the balance sheet risk of Dexia Crédit Local, for both the parent company and the consolidated group, and to take all appropriate measures to ensure compliance with the risk limits established by the Group ALCO.

1.4. Operational risk

Definition

Dexia defines operational risk as the risk of a financial or non-financial impact resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes risks related to information systems, legal issues and compliance, but excludes strategic risk.

The definition of operational risk developed by Dexia is inspired, in a non-exhaustive manner, by the definition provided by the Basel Committee, which puts the emphasis on losses (negative financial impacts). Dexia's policy also requires the collection of data concerning any events that generated financial gains.

Organisation

The Management Board of the Dexia Group meets weekly and regularly examines changes in the risk profile of the Group's various activities and make all necessary decisions.

The Risk Policy Committee, a strategic committee made up of representatives of the Management Board, approves Group-wide policies. The Risk Policy Committee meets quarterly.

The Operational Risk Guidelines Committee, chaired once a quarter by the Group Chief Risk Officer, transposes the approved policies into recommendations suited to Group's business activities. It reviews all operational risk events and related analyses on a Group-wide level.

The Operational Risk Management Committee, chaired once a month by the Group Operational Risk Manager, develops consistent Group-wide operational risk procedures, including those for business continuity, crisis management, information security and insurance.

Line management has primary responsibility for managing operational risk. For each area of activity, it appoints an operational risk correspondent whose role is to coordinate the collection and self-assessment of risk event data, with the help of the local operational risk management function.

2. RISK MONITORING

2.1. Credit risk

Dexia Crédit Local credit risk policy

The Dexia Crédit Local Credit Risk Management department (CRM) has established a general framework of policies and procedures consistent with the risk appetite of the Bank. This framework guides the credit risk Management function in its risk analysis, decision-making and monitoring functions.

CRM manages the credit approval process by granting delegations within the limits set by the Bank's management and by chairing the Credit Committees. As part of its credit risk monitoring duties, CRM controls changes in the credit risk of its portfolios through regular analysis of credit files and reviewing credit ratings. CRM is also responsible for defining and implementing the reserve policy. It approves specific reserves and classifies files as being in default.

Risk measurement

To measure its credit risk, Dexia Crédit Local primarily uses the internal rating systems set in place by Dexia in connection with Basel II. Each counterparty is assigned a credit rating by the analysts in charge of credit risk. This rating corresponds to an assessment of the level of the counterparty's risk of default expressed through an internal scale and represents a key component of the Credit Committee's credit approval process. All credit ratings are reviewed at least once a year, which allows all counterparties requiring regular monitoring by the Watchlist Committee to be identified proactively.

In order to manage the Group's general credit risk profile and to limit any concentrations of risk, credit risk limits are set for each counterparty, establishing the maximum acceptable credit risk exposure for a given counterparty. The total exposure held by Dexia Crédit Local and its subsidiaries and by any other Dexia Group entity for any given counterparty must remain below the limit set for that counterparty. Limits may also be imposed by business sector and by product. These limits are monitored proactively in accordance with changes in the perception of risk. To take account of events as they occur, specific limits may be frozen at any time by the Risk Management department.

In connection with the management of its derivatives, Dexia Crédit Local regularly monitors the legal provisions relating to netting agreements and exchanges of collateral.

Fundamentals of Dexia Crédit Local's credit risk in 2010

From a macroeconomic standpoint, economic conditions improved gradually in most European countries in 2010. The year was, however, also marked by a crisis of confidence in the ability of some European states to meet their financial obligations, putting pressure on financial markets and making it difficult for these countries to obtain funding. The crisis prompted all of the EU countries to adopt fiscal austerity measures aimed at reducing public debt.

Dexia Crédit Local observed a clear slowing of the decline in the average ratings of the portfolios, reflecting the improvement in economic conditions. This trend was particularly visible in a number of sectors weakened by the financial crisis and against which general [collective] reserves had been set aside in 2008 and 2009 – in the port and motorway sectors in particular – which prompted several reversals of collective reserves.

In response to the sovereign debt crisis that affected certain European countries – primarily Greece, Ireland, Portugal and Spain – Dexia Crédit Local not only blocked the approval of credit to those sovereigns concerned but included these exposures in its securities divestiture programme as well. Dexia Crédit Local remains alert to all developments in this area, including the impact of the interventions of the European Financial Stability Facility and the IMF to provide support to States experiencing difficulties.

In this context, it is important not to extrapolate the default risk of a sovereign to that of local governments. A number of factors make it possible to relativise the risk of a systematic contagion:

- the regulatory framework governing the administration of local governments is binding. In most countries in which Dexia Crédit Local is active, local governments are obliged to present a balanced budget. Moreover, they are allowed to borrow only to finance their investments and not their operating expenses, and debt levels are generally subject to limits in terms of both absolute value and as a percentage of revenue spent on debt service. The contraction of debt affects capital expenditures only, not operating expenses, which are funded in part by contributions and grants. The level of debt is generally fairly low. Therefore, even if local governments have increased their debt during the recent period, it remains at reasonable levels (8% of the deficit and 9% of the public debt of the European Union);

- several mechanisms are in place to protect the holders of local authority debt: in France, debt service is a compulsory and therefore priority expenditure; in Italy, public debt holders enjoy a prior claim on income tax; etc.

Depending on the country, local governments were generally affected by the deterioration of the global economy in a fairly heterogeneous manner. The measures taken by governments play a significant role. Some local governments receive a significant share of their revenues from their central government. The increase in transfers, either on an ad hoc basis as is the case in Poland or through the establishment of stimulus plans as in the United States, helped offset falling tax revenues.

In France, the strong growth of income from transfer tax on real estate transactions in 2010 offset the slowdown in other sources of operating income. Fiscal 2010 was a year of transition for local direct taxation, marked by the elimination of the *taxe professionnelle* (local business tax). State transfers, in turn, changed little, and are expected to remain frozen for three years. Capital budgets are decreasing somewhat, yet remain high. In this context of tax reform and restrictions on state grants, the French administrative departments are faced with a steady increase in social spending, particularly in respect of *Revenue de Solidarité Active* (RSA) guaranteed minimum income allocations and allowances for senior citizens: whilst this could impact the internal credit ratings of the departments, they would still remain strong.

In Spain, debt levels increased significantly and gross savings levels deteriorated in some regions, while municipalities posted higher revenues following the review of their tax map.

In Italy, debt levels are expected to stabilise but the pressures on healthcare spending remain strong.

In Central and Eastern Europe, the impact of the crisis is quite pronounced in Bulgaria, Czech Republic and Hungary due to the drop in tax revenues, but this is offset by increased transfers from the State. No significant effects have been observed yet in Romania. In Poland, the crisis has not had a very visible impact on local governments' current income, but savings have gone down and capital spending remains strong.

In the United States, while the individual states are finding it difficult to close their budget gaps, most of them are legally obligated to balance their budgets. Municipal governments have therefore had to make significant cuts in spending.

As Japan has been spared by the financial crisis to some extent, local governments do not appear to have been impacted to any great degree.

In line with the Bank's commitments to the European Commission, Dexia Crédit Local continued to sell off its bond portfolio in 2010, automatically lowering the Group's credit risk. While the economic crisis continued to weigh heavily on the portfolio's average credit rating, performances and expected losses showed no significant signs of deterioration. The deterioration was more pronounced in the residential mortgage-backed securities (RMBS) sector in the United States and Europe (primarily in Ireland and Spain). In spite of everything, 92% of the bond portfolio is still rated *investment grade*.

All in all, the resilience of Dexia Crédit Local's asset base to the economic crisis confirms the low risk profile of the Group's businesses.

Financial products portfolio

The Financial products is described in note 7.2. "Exposure to credit risk".

Exposure to credit risk

Exposure to credit risk is described in note 7.2. "Exposure to credit risk".

2.2. Market risk

Dexia Crédit Local market risk policy

In order to manage market risk on a consolidated basis, Dexia has developed a framework based on the following:

- a comprehensive approach to the measurement of risk, which constitutes an important part of the Dexia Group's process for monitoring and controlling its risk profile;

- a rigorous system of limits and procedures that govern risk-taking. The market risk limit system must be consistent with the entire risk measurement and management process and with the mechanism for ensuring that the Group maintains an adequate capital position. These limits are consolidated and defined for the broadest scope possible;

- an efficient organisation of the risk management function, which is responsible for identifying, measuring, monitoring, controlling and reporting all risks: the development of Dexia's overall risk management framework must reflect the types of challenges that the Bank is confronted with. This approach ensures that market risks are managed in a manner that is consistent with Dexia's objectives and strategy and with the Group's general risk appetite framework.

Risk management

Risk measurement

Like the Dexia Group, Dexia Crédit Local has adopted the Value at Risk (VaR) risk measurement technique as one of its main risk metrics. VaR measures the potential loss expected for a 99% confidence interval over a 10-day holding period. Dexia uses several VaR techniques to obtain a precise measurement of the inherent market risk of its various portfolios and activities.

- parametric VaR is used to measure general interest rate risk;
- historical VaR is used to measure specific interest rate risk (spread);
- specific and historical VaR techniques are used to measure nonlinear and specific risks, in order to obtain a more accurate assessment of exposure to market volatility.

Dexia Crédit Local's exposure to market risk, measured in terms of VaR, comes mainly from general and specific (spread) interest rate risk, reflecting the current volatility observed in credit markets, while its exposure to market risk resulting from the trading of equities and foreign currencies and from other risk factors is much lower.

Dexia Crédit Local uses the in-house VaR model to calculate its regulatory capital requirements on the general interest rate and currency risk generated by its trading activities.

The VaR techniques employed are continuously optimised. The "Market Risk Engine" project, which was launched in 2010, seeks to provide an historical VaR that factors in every risk factor (with a full reassessment of all nonlinear risk factors). This comprehensive historical VaR technique, which has emerged as the standard in many banks, will provide a consistent and more accurate metric. In addition to VaR, the new tool will facilitate stress testing and the analysis of extreme values. The first phase of the project has already been implemented successfully and has helped improve existing historical VaRs, add sensitivity-based historical VaRs and advance with the implementation of the stressed VaR as requested by the regulator.

In 2010, backtesting did not generate any exceptions to general interest rate or currency risk (in-house model) or credit spread-related risk, which attests to the effectiveness of the techniques employed.

In addition to VaR metrics and loss triggers, Dexia Crédit Local uses a wide range of other metrics to assess the risks associated with its different businesses and portfolios (limits for nominal volumes, maturities and authorised markets and products; limits for sensitivity to the various risk factors [Greeks]).

Stress testing is increasingly important to any stringent risk management system, as it explores a range of low probability events outside the probabilistic scope of VaR measurement techniques. VaR measures estimated market risk under traditional, everyday conditions, while stress testing quantifies it under abnormal circumstances. In this context, the various assumption scenarios are reviewed and updated regularly. The consolidated results of stress testing and the corresponding analysis are presented once a quarter to the MRGC and the DMRC.

Bonds in the banking book are not subject to VaR limits, due to their different investment horizon. Under the Dexia transformation plan, nearly all of that portfolio has been placed in run-off.

Exposure to market risk

Exposures to market risk are presented in note 7.5. "Sensitivity to interest rate and other market risks".

2.3. Balance sheet management

Dexia Crédit Local ALM risk policy

Dexia Crédit Local takes a conservative approach to asset-liability management. The main objective is to minimise earnings volatility and preserve value. The Bank seeks to stabilise its overall income, not to create additional income through the voluntary assumption of interest rate risk.

Interest rate sensitivity is considered to be the main tool for measuring risk (total revaluation expressed in terms of sensitivity). A parametric VaR based on interest rate sensitivity is calculated at the Dexia Group level for information purposes. The key risk metrics used by the ALM Committees (ALCO) to manage this risk remain, however, global and partial sensitivity by time interval.

Risk measurement

Interest rate risk

The role of the Balance Sheet Management (BSM) unit within the risk management function is to reduce the volatility of Dexia Crédit Local's income statement, in order to 'immunise' the operating profits generated by the business lines and protect the Group's overall creation of value from changes in interest rates. Dexia's approach to interest rate risk management is to reduce its exposure by continuously restoring the equilibrium between the interest rates on its assets and the interest rates on its liabilities.

All Group entities use the same methods to measure balance sheet risk. The primary metric used to set limits and monitor risk is currently the sensitivity of the net present value of BSM positions to changes in interest rates.

Dexia Crédit Local's structural interest rate risk is generated primarily by long-term European interest rates and results from the structural imbalance between the Dexia Crédit Local's assets and its liabilities.

Risk sensitivity measurements reflect the exposure of the balance sheet to first- and second-order sensitivity. VaR calculations provide complementary, indicative measurements.

Interest rate risk is monitored on a fortnightly basis in the main entities of the Dexia Crédit Local Group and is managed by local committees. Risk indicators are calculated on a "dying balance sheet" and until its extinction. The results of this monitoring are presented each month to Dexia Crédit Local's Asset and Liabilities Committee (ALCO), which determines the interest-rate risk policies and limits to be observed by its subsidiaries, as the limits to be observed by Dexia Crédit Local are established by the Group ALCO.

Credit spread risk

Credit spread risk is defined as the specific interest rate risk on the issuer. It is generated by changes in the spread of a specific issuer within a rating class, and is measured on the basis of the sensitivity expressed in basis points.

Currency risk (structural)

Dexia Crédit Local does not engage in any forex activities. The basic principle is that all assets denominated in foreign currencies (other than equity investments) are systematically funded in the currency of origin. Thus, any foreign currency positions are generated solely by the results (positive or negative) of operations denominated in foreign currencies. Foreign currency positions are managed within the framework of ALM activities. They can be divided into three compartments, each of which has its own specific monitoring and oversight:

- from an accounting standpoint, the non-structural currency position includes foreign currency-denominated assets and liabilities other than equity investments, realised gains and losses and risk provisions;

- future results denominated in foreign currencies: current transactions (ALM margins, securities, equity investments, etc.) contain future results denominated in foreign currencies that have not yet been recognised but the amount and maturity of which are relatively certain. Group ALCO is authorised to hedge these items in advance using forward purchases/ sales of foreign currencies against the accounting currency of record;

- the structural foreign currency position represents the currency risk of equity investments acquired in foreign currencies. The revaluation of this position at each balance sheet date affects only the balance sheet and has no impact on earnings. It is recognised in profit or loss only in relation to dividend payments and the setting aside of reserves on, or the sale of, the corresponding asset.

Balance sheet exposure

Exposure to balance risk is presented in note 7.5. "Sensitivity to interest rate and other market risks".

2.4. Liquidity risk

Dexia Crédit Local liquidity risk policy

In 2010, Dexia completely revamped its internal liquidity risk management process, including its emergency funding plan.

This change is intended to establish a more effective and coordinated management of liquidity. The cornerstone of this new framework is the Funding and Liquidity Committee (FLC), which includes all stakeholders at the Group level and coordinates their actions. Information and decisions affecting Dexia Crédit Local or any of its subsidiaries are also discussed during the Dexia Crédit Local ALM Committee (ALCO), which is responsible for monitoring balance sheet risk within the consolidated scope of Dexia Crédit Local. Finally, Dexia Crédit Local's Management Board and Audit Committee regularly monitor the Group's liquidity position.

Dexia strives to maintain a liquidity reserve that is proportional to its future funding needs under different scenarios, including both normal and stress conditions. This liquidity reserve consists of securities that qualify for the funding programmes of those central banks to which Dexia has access. Dexia's expected funding needs are assessed in a conservative, dynamic and exhaustive manner, taking account of all existing and planned transactions (both on- and off-balance sheet). Short-term liquidity risk is monitored on a daily basis, whilst long-term liquidity risk is monitored on a quarterly basis. Moreover, the liquidity issue is central to the definition of Dexia's multi-year financial plan.

Dexia's internal liquidity risk management process allows daily monitoring of liquidity and provides a prospective view of long-term liquidity: this forward-looking vision factors in assumptions as they occur as well as the various stress factors that can affect growth (for example, drawings on off-balance sheet commitments or issues related to the renewal of long-term funding). Changes to these scenarios have been presented regularly to the Liquidity Committee and the Audit Committee of Dexia Crédit Local.

The updated emergency funding plan alters the governance structure to make it more responsive at times when liquidity stress requires prompt action.

Risk measurement

The Dexia Group defines a number of liquidity indicators to measure and monitor how well Dexia would hold up in the face of a liquidity risk. These indicators include but are not limited to the usual "liquidity ratios" comparing the liquidity reserve to the liquidity gap. They include limits on the absolute size of the liquidity gaps and limits on the proportion of short-term funding used. All of these indicators are evaluated under different scenarios, in all of the major currencies, at all appropriate levels of consolidation and over various horizons ranging from one day to one month for short-term indicators, and from one day to 50 years for long-term indicators. Dexia Crédit Local's liquidity risk is also limited by the regulatory ratios established by its regulatory authority, and is monitored regularly by the Management Board and the Audit Committee of Dexia Crédit Local.

Exposure to liquidity risk

In 2010, Dexia Crédit Local raised EUR 42.1 billion in medium- and long-term funding.

The funds raised included EUR 23.2 billion of debt guaranteed by the States and EUR 12.9 billion in covered bonds, EUR 3.5 billion in secured long-term financing other than covered bonds and EUR 2.5 billion in senior unsecured financing. In addition to these external funding operations, Dexia Crédit Local also raised EUR 11 billion in new intra-group financing from other Dexia Group entities, over periods ranging from one to three years.

Dexia Crédit Local made significant progress during the year in reducing its one-month liquidity need, which declined 13% year on year to EUR 30.4 billion as at 31 December 2010.

This good performance was made possible by:

- the sustained pace of the balance sheet reduction programme. EUR 12 billion in bonds and EUR 5 billion in long-term loans previously held by the Public and Wholesale Banking business were sold in 2010;
- the successful execution of the long-term funding programme;
- the restriction of the amount of public sector loans, as defined by the Group's ability to obtain long-term funding.

By lowering its risk profile, Dexia Crédit Local was able to substantially decrease its reliance on borrowing from central banks: as at 31 December 2010, Dexia Crédit Local and its subsidiaries had only EUR 18.4 billion in central bank financing, EUR 10 billion less than the previous year, and only from the European Central Bank. Dexia Crédit Local's other short-term external funding also went down, by EUR 16 billion in one year to EUR 64 billion, at 31 December 2010.

As at 31 December 2010, the total amount of eligible assets from central banks amounted to EUR 59 billion, of which EUR 19 billion is available to cover one-month funding needs.

In 2010, Dexia also stopped making use of the Belgian, French and Luxembourg State guarantees. On 30 June 2010, in the light of its improved liquidity position and in accordance with its commitments to the European Commission, the Group stopped issuing guaranteed debt four months before the official 30 October 2010 deadline. As at 31 December 2010, there was a total of EUR 41.3 billion in outstanding guaranteed transactions. These guaranteed outstandings shall be fully amortised in 2014. In 2010, the cost of the State guarantee on short-and long-term securities issued under the guarantee amounted to EUR 340 million. To further improve its liquidity position in 2011, Dexia Crédit Local has established an action plan based on the continuation of balance sheet reduction initiatives, the diversification of long-term funding sources and the optimisation of the allocation of assets between the various entities within the Group's scope of consolidation.

2.5. Legal risks

Dexia Crédit Local's activities do not entail any risks other than those traditionally associated with the distribution of financial products to customers. During 2010, no significant change was observed in the number of disputes with customers, which remained few. Two structured loan customers subpoenaed Dexia Crédit Local in early 2011. The most significant disputes concerning Dexia Crédit Local's subsidiaries are described below:

- Financial Security Assurance Holdings Ltd. (FSA Holdings) and its subsidiary, Financial Security Assurance Inc. (now named Assured Guaranty Municipal Corp. and hereafter referred to as "AGM"), former subsidiaries of the Dexia Group, and many other banks, insurance companies and brokerage firms are being investigated in the United States by the Antitrust Division of the US Department of Justice, the US tax authorities and the US Securities and Exchange Commission (SEC) on the grounds that they violated certain laws and regulations in connection with bidding on and entering into municipal derivatives transactions, including guaranteed investment contracts (GICs)[(1)], with the issuers of municipal bonds. Several US states have initiated parallel, similar investigations.

  In addition to the governmental investigations described above, a large number of banks, insurance companies and brokerages, including in some cases FSA Holdings, Dexia and/or AGM, have been named as defendants in various civil actions relating to municipal GICs and municipal derivatives transactions. These civil lawsuits allege violations of antitrust and other laws and regulations. Substantially all these civil proceedings have been consolidated for pre-trial purposes in a single matter before the US District Court for the Southern District of New York.

  Under the terms of the sale of FSA Holdings and AGM to Assured Guaranty Ltd, Dexia retained the Financial products business and agreed to indemnify AGM and Assured Guaranty Ltd for all losses related to this activity that they may incur as a result of the investigations and lawsuits mentioned above.

  Dexia is not able at present to reasonably predict the duration and the outcome of the investigations and legal proceedings in progress, or their potential financial repercussions.

  On 27 July 2010, the Department of Justice (DOJ) indicted former FSA employee Steven Goldberg, together with two former colleagues of Goldberg at his previous employer in the bid rigging matter. The DOJ did not indict FSA or any entity within the Dexia FP Group as part of the Goldberg indictment.

- Dexia Crediop, like other banks in Italy, is involved in certain judicial proceedings with respect to hedging transactions concluded in the framework of debt refinancing for local governments.

  Under Italian law, debt may be restructured only if it leads to a reduction in the cost borne by the community. The legal question raised is whether or not the cost to be taken into consideration includes the cost of hedging transactions.

  In November 2010, the administrative tribunal of the Region of Tuscany rendered a decision in a dispute between Dexia Crediop and the Province of Pisa according to which the hedging transaction must be taken into account when calculating the costs of the restructuring transaction. Dexia Crediop lodged an appeal against this decision before the State Council in January 2011.

  In addition, Dexia Crediop has filed several claims before civil and administrative courts to preserve its rights under certain hedging agreements.

  At this stage of the proceedings, Dexia is not in a position to forecast in a reasonable way the duration or the outcome of the disputes, nor their possible financial consequences.

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

- In June 2009, one of the clients of Dexia banka Slovensko initiated legal proceedings relating to currency transactions. Dexia SA issued a letter of comfort in favour of Dexia Credit Local, indicating that it will bear any financial consequences that may result from this dispute. Accordingly, Dexia Credit Local did not record any provision relating to this matter in its financial statements as at 31 December 2010.

- In May 2002, a complaint was filed in relation to the purchase by Dexia of shares held by the State of Israel claiming non-compliance with company law. In April 2009, the Central District Court rejected the application for a class action formulated by the complainants. In June 2009, the latter appealed to the Supreme Court. The hearing was held on 8 November 2010. The Court has not yet passed judgement.

3. CHANGES IN REGULATORY FRAMEWORK

Since 1 January 2008, Dexia Crédit Local has used the Advanced Internal Rating Based Approach (AIRBA) to calculate its capital requirements and capital adequacy ratios. New models have been developed and will gradually be used to calculate regulatory capital as from 31 December 2011.

Pillar 2 was strengthened in 2010 following inspections by the committee of regulators. These provisions, which have been applicable since 31 December 2008, require banks to demonstrate to their regulators that they are sufficiently capitalised in the light of their risk profile. To accomplish this, the banks must notably have internal systems for calculating and managing their risk that are capable of estimating their economic capital needs (Internal Capital Adequacy Assessment Process, or ICAAP). The process is composed of three major sub-processes: the Risk Management department's risk analysis, and the Finance department's financial plan (including capital allocation, analysis of the results of the business lines and the internal supply of capital) and economic capital adequacy analysis.

The Management Board of Dexia Crédit Local has been kept closely informed of all Pillar 2-related developments. In early 2011, the Management Board of Dexia Crédit Local approved Dexia's general risk appetite policy.

Pillar 3, which defines a set of qualitative and quantitative risk-related disclosures to be provided to market players, is to be applied at the highest consolidated level of the Dexia Group, and has been an integral part of Dexia Crédit Local's external communication policy since 2008 (see document entitled Risk Report – Pillar 3 of Basel II available at www.dexia.com).

Finally, Dexia is deeply involved with and closely follows all domestic and international consultations, participating notably in the Bank for International Settlements' study of the impact of Basel III reform on the definitions of items such as equity, gearing and liquidity ratios, etc.

In this context, Dexia worked actively on the application of so-called EU Directives "CRD 2" and "CRD 3".

INTEREST RATE RISK HEDGE MANAGEMENT

The Group uses swaps, options, and foreign exchange futures essentially to hedge interest rate and currency risk.

Depending on the objective, the financial derivatives used are designated as fair value hedges, cash flow hedges or hedges of net investments in foreign currencies.

Each and every hedging relationship is formally documented from the outset, describing the strategy pursued, designating the hedged instrument and the hedging instrument, the type of risk hedged and the methodology used to assess the prospective and retrospective efficiency of the hedge.

Insofar as interest rate risk is concerned, fair value hedges are applied to either identified fixed rate assets or liabilities or to portfolios of fixed rate assets or liabilities. Derivative financial instruments are contracted to reduce the exposure of the value of these instruments to changes in interest rates. Hedges of identified assets or liabilities concern primarily loans, available-for-sale securities and Group debt issues.

Hedges of portfolios of financial assets or liabilities, established by currency, concern:

- fixed-rate loans: customer loans;

- fixed-rate customer resources (debt issuance).

The amount hedged is calculated by laying out a schedule of the outstanding maturities of the hedged items and designating one value per considered maturity band. These maturity schedules are calculated whilst taking account of the contractual characteristics of the transactions.

For each hedging relationship, prospective effectiveness is measured by ensuring that for each maturity band, the outstanding value of hedged items is greater than the outstanding value of the designated financial hedging derivatives.

Retrospective effectiveness is measured by ensuring that the monthly change in outstandings hedged at the start of the period does not indicate any retrospective over-hedging.

Insofar as interest rate risk is concerned, the Group uses financial derivatives to hedge changes in income and expenses related to floating-rate assets and liabilities.

Highly probable future transactions are also hedged. The items hedged are positioned in maturity schedules, by currency and by interest rate index. The Group uses financial derivatives to hedge all or part of the risk exposure generated by these floating-rate instruments.

7.1. Fair value

a. Fair value of assets

(EUR millions)	As at 31 December 2009			As at 31 December 2010		
	Carrying amount	Fair value	Unrecognised fair value adjustment	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash, central banks and postal checking accounts	901	901	0	424	424	0
Loans and securities at fair value through profit or loss (see note 2.1)(1)	3,434	3,434		3,003	3,003	
Derivatives (see note 4.1.a)(1)	18,858	18,858		26,000	26,000	
Available-for-sale financial assets(1)	47,617	47,617		39,083	39,083	
Interbank loans and advances	26,796	25,151	(1,645)	22,625	22,455	(170)
Customer loans and advances(3)	239,198	234,718	(4,480)	239,982	233,409	(6,573)
Fair value revaluation of portfolio hedges(1)(2)	1,788	1,788		2,144	2,144	
Held-to-maturity financial assets	973	1,037	64	839	812	(27)
Investments in associates	0	0	0	0	0	0
Other assets	20,700	20,700	0	26,739	26,739	0
Non-current assets held for sale	0	0	0	19	19	0
TOTAL	**360,265**	**354,204**	**(6,061)**	**360,858**	**354,088**	**(6,770)**

(1) The fair value of certain items is equal to their carrying amount.
(2) The line "Fair value revaluation of portfolio hedges" corresponds to the remeasurement of the interest rate risk on assets covered by portfolio hedges. These assets are included in the lines "Customer loans and advances", "Interbank loans and advances", and "Available-for-sale financial assets".
(3) The fair value and unrecognised fair value adjustment figures in respect of "Customer loans and advances" were revised in 2009

b. Analysis of fair value of liabilities, excluding shareholders' equity

(EUR millions)	As at 31 December 2009			As at 31 December 2010		
	Carrying amount	Fair value	Unrecognised fair value adjustment	Carrying amount	Fair value	Unrecognised fair value adjustment
Central banks, postal checking accounts, interbank borrowings and deposits	105,438	102,922	(2,516)	96,587	95,598	(989)
Financial liabilities at fair value through profit and loss (see note 3.1)(1)	4,681	4,681		4,356	4,356	
Derivatives (see note 4.1.a)(1)	32,421	32,421		45,948	45,948	
Customer borrowings and deposits	13,967	13,927	(40)	13,457	13,289	(168)
Fair value revaluation of portfolio hedges(1)(2)	1,884	1,884		1,984	1,984	
Debt securities	190,896	186,520	(4,376)	190,069	189,329	(740)
Subordinated debt	4,846	4,093	(753)	4,319	4,509	190
Other liabilities	4,857	4,857	0	3,856	3,856	0
Liabilities included in disposal groups held for sale	0	0	0	0	0	0
TOTAL	**358,990**	**351,305**	**(7,685)**	**360,576**	**358,869**	**(1,707)**

(1) The fair value of certain items is equal to their carrying amount.
(2) The line "Fair value revaluation of portfolio hedge" corresponds to the remeasurement of the interest rate risk on liabilities covered by portfolio hedges. These liabilities are included in the lines "Interbank borrowings and deposits", "Customer borrowings and deposits" and "Debt securities".

The fair value presented above includes only the impact related to interest rates, except for "Held-for-trading liabilities" and "Liabilities at fair value through profit or loss".

c. Methods used to determine the fair value of financial instruments

Fair value of financial assets

(EUR millions)	As at 31 December 2010			
	Level 1[(1)]	Level 2[(2)]	Level 3[(3)]	Total
Loans and securities at fair value through profit or loss (see note 2.1)	34	106	2,863	3,003
Derivatives (see note 4.1.a)	13	23,085	2,902	26,000
Available-for-sale financial assets	6,812	5,962	26,309	39,083
TOTAL	**6,859**	**29,153**	**32,074**	**68,086**

(1) Fair value derived from quoted prices (unadjusted) in active markets for similar instruments.
(2) Fair value derived from inputs other than quoted prices included within Level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
(3) Fair value derived from valuation techniques that include inputs that are not based on observable market data.

Fair value of financial liabilities

(EUR millions)	As at 31 December 2010			
	Level 1[(1)]	Level 2[(2)]	Level 3[(3)]	Total
Financial liabilities at fair value through profit and loss (see note 3.1.a)	0	4,333	23	4,356
Derivatives (see note 4.1.a)	0	39,709	6,239	45,948
TOTAL	**0**	**44,042**	**6,262**	**50,304**

(1) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
(2) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
(3) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfer between levels 1 and 2

(EUR millions)	As at 31 December 2010	
	From 1 to 2	From 2 to 1
Loans and securities at fair value through profit or loss	0	0
Derivatives	0	0
Available-for-sale financial assets	838	0
TOTAL FINANCIAL ASSETS	**838**	**0**
Financial liabilities at fair value through profit and loss	0	0
Derivatives	0	0
TOTAL FINANCIAL LIABILITIES	**0**	**0**

Level 3 analysis

(EUR millions)	As at 31 December 2009	Total gains losses and through profit and loss	Total unrealised or deferred gains and losses	Purchase	Sale	Direct origination	Settlement	Transfer into level 3	Transfer out of level 3	Other move-ments [(1)]	As at 31 December 2010
Loans and securities at fair value through profit or loss	2,359	253		0	(955)		(17)	1,115	(8)	116	2,863
Derivatives	1,663	809	0	0	(9)		(332)	447	(454)	778	2,902
Available-for-sale financial assets	30,022	607	(722)	250	(3,290)		(1,497)	684	(474)	729	26,309
Total financial assets	**34,044**	**1,669**	**(722)**	**250**	**(4,254)**	**0**	**(1,846)**	**2,246**	**(936)**	**1,623**	**32,074**
Financial liabilities at fair value through profit and loss	18	5	0	0	0	0	0	0	0	0	23
Derivatives	1,799	3,013	0	0	(2)	0	(960)	3,664	(735)	(540)	6,239
Total financial liabilities	**1,817**	**3,018**	**0**	**0**	**(2)**	**0**	**(960)**	**3,664**	**(735)**	**(540)**	**6,262**

(1) Other adjustments include notably the impact of changes in exchange rates during the year.

Sensitivity of level 3 valuations to alternative assumptions

For its mark-to-model price, the Dexia Crédit Local group uses a discounted cash flow model. The sensitivity measures the impact on fair value of alternative assumptions used for unobservable parameters at the closing date.
Insofar as the valuation of spread is concerned, when using its models, the Group considered alternative assumptions for the unobservable parameters, mainly:

- credit spreads, depending on the availability of credit spreads for the same counterparty, or, failing that, credit spreads based on similar counterparties, or belonging to similar sectors or by using credit risk indexed to liquid CDS indices;
- liquidity premiums, taking into consideration the different levels of premiums that are mainly used in the context of calculating the fair value of bonds and which are determined largely by a security's eligibility for refinancing at central banks;
- illiquidity of the financial instrument, taking into account a change in the assessment of market liquidity for the same instrument or similar products, and/or including the analysis of differences between bid and ask prices for actual transactions.

Tests have been performed on all financial instruments classified in level 3. The main impacts are as follows:

- for level 3 bonds in the available-for-sale (AFS) portfolio, the sensitivity of the AFS reserve to alternative assumptions is estimated to range from a negative impact of EUR 245 million to a positive impact of EUR 293 million;
- negative basis trades (NBT) are considered as a single product on the market and are therefore tested for the bond and its related CDS together. The main assumption affecting their fair value is the impact of early unwinding (bid/ask spread). In 2010, based on the significant number of unwinds performed by the Dexia Crédit Local group in 2009, and taking into account the stock of remaining NBT in the portfolio, the positive impact (from unwinds in 2009) is EUR 4 million whereas the negative impact (unwinds in 2010) is EUR 33 million;
- the Dexia Crédit Local Group tested the impact of different unobservable parameters for its derivatives, e.g. exotic currencies, interest rate volatility (unobservable vega and smile) and correlation, model uncertainties, extrapolation over the long term, equity sensitivities (unobservable vega, dividend volatility, correlation, etc.). The main impacts relate to credit spread on CDS, for which the estimated impact ranges from positive EUR 5 million (positive scenario) to negative EUR 5 million (negative scenario) before tax.

d. Difference between transaction prices and modelled values (day one profit or loss)

No material deferred day one profit was recognised in 2009 and 2010. Transactions generating a profit on the first day (essentially perfect matches) are measured using observable market parameters.

7.2. Credit risk exposure

Credit risk exposure is disclosed in the same way as it is reported to Management and is:

- for balance sheet assets other than derivative contracts, the net carrying amount (i.e. accounting value after deduction of specific provisions);
- for derivative contracts, the mark-to-market value and recognised on the balance sheet;
- for off-balance sheet commitments the amount given in note: the undrawn portion of financing commitments and the maximum amount that may be called for guarantee commitments.

a. Exposure by geographical region and by counterparty category

Credit risk exposure is broken down by geographical region and by counterparty taking into account all guarantees obtained. This means that when credit risk exposure is guaranteed by a third party whose weighted risk (for Basel regulations) is lower than that of the direct borrower, the exposure is assigned to the guarantor's geographical region and industrial segment.

Credit risk exposure is based on a scope that encompasses the fully-consolidated subsidiaries of Dexia Crédit Local and includes 50% of the joint venture Domiserve.

Exposure by geographical region

(EUR millions)	As at 31 December 2009	As at 31 December 2010
France	94,646	91,102
Belgium	39,419	49,141
Germany	32,884	30,340
Greece	3,575	2,885
Ireland	1,728	1,275
Italy	48,076	41,945
Luxembourg	4,937	2,275
Spain	24,370	23,751
Portugal	4,955	4,588
Other EU countries	34,370	33,076
Rest of Europe	7,747	7,643
Turkey	473	470
United States and Canada	59,962	54,364
South and Central America	2,998	3,106
Southeast Asia	1,255	1,184
Japan	14,453	8,387
Rest of world(1)	7,789	6,867
TOTAL	**383,637**	**362,399**

(1) Includes supranational entities.

Exposure by counterparty category

(EUR millions)	As at 31 December 2009	As at 31 December 2010
Central governments(1)	39,216	35,170
Local governments	213,811	204,592
Financial institutions	72,906	70,915
Private companies	13,781	12,057
Monoline insurers	7,548	7,558
ABS/MBS	20,165	14,550
Project finance	15,789	17,106
Private individuals, SME, sole traders	421	451
TOTAL	**383,637**	**362,399**

(1) Of which, in 2010: EUR 16,816 million for Italy, EUR 2,518 million for Greece, EUR 610 million for Spain, EUR 1,945 million for Portugal and EUR 128 million for Ireland.

Credit quality of Dexia Financial Products' financial assets

a. History and nature of the portfolio

On 14 November 2008, Dexia entered into a sale and purchase agreement with Assured Guaranty (Assured) relating to the sale of Financial Security Assurance Holdings Ltd (hereafter FSA Insurance), excluding its Financial Products activity (hereafter Dexia FP).

The Dexia FP activity consisted, in substance, in (i) taking deposits from third parties (in general from issuers – local authorities or ABS issuers of instruments which where enhanced by FSA Inc.) in favor of whom Dexia FP undertakes to remunerate such deposits at a determined level, pursuant to Guaranteed Investment Contracts, ("GICs") and (ii) the reinvestment of these deposits, with the objective of generating a net positive interest rate margin.

Even though its initial rating was mostly AAA, Dexia FP's asset portfolio includes a substantial proportion of instruments directly or indirectly linked to the American real-estate sector with a rating and/or a market value that have significantly deteriorated because of the sub-prime crisis and the global financial crisis.

b. Consequences of the exclusion of the FP and States' guarantee

The FP activity was excluded from the sale to Assured. However, to the extent that FSA Inc. (the former subsidiary of FSAH, renamed Assured Guaranty Municipal Holdings Inc. which provides, directly or through its subsidiaries, the credit enhancement activities of the Group) guarantees assets and liabilities of the FP activity, the exclusions of this activity from the scope of the sale necessarily means that the Dexia Group must guarantee the FP activities, so that guarantees given by FSA Inc. are not called upon. Given the financial situation of the Dexia Group, and to the maximum theoretical amount of the guarantee given by Dexia, it was considered vital by the purchaser, that Dexia be itself guaranteed by the Belgian and French States. The share sale agreement entered into with Assured therefore stipulated as a condition to the sale that either Dexia should post collateral (e.g. cash securities or eligible instruments), but in excessive proportions, at the time of the signature of the agreement, or that a state guarantee should be given.

The Belgian and French States consented to giving this guarantee, and agreed with Dexia, under certain conditions, that their recourse against Dexia under this guarantee would be converted into Dexia shares. That conversion right is organized through the subscription rights. A more detailed description of the guarantee is described in the note 4.3 Related-party transactions, section b. Transactions with the Belgian and French States.

The main conditions of the Guarantee Agreement and the Guarantee Reimbursement Agreement are, in substance, the following:

- **Dexia FP put.** Dexia SA and Dexia Crédit Local SA ("DCL") (Dexia and DCL are hereafter referred to as the "Dexia Guarantors") entered into a put agreement whereby Dexia FP is entitled to sell to Dexia and/or DCL certain assets included in the Dexia FP portfolio existing at the signature of the guarantee upon the occurrence of certain trigger events.

- **States' guarantee.** The Belgian and French States each undertook to guarantee, severally and not jointly, the obligations of Dexia SA pursuant to the put agreement up to an amount equal to USD 16.98 billion and up to 62.3711% for the Belgian State and 37.6289% for the French State.

- **Guaranteed portfolio.** The portfolio to which this put relates is the Dexia FP portfolio after deduction of the "excluded assets" for a nominal amount of USD 4.5 billion, to the effect that the par value of the assets included in the portfolio to which the put relates is equal to USD 9.7 billion on 31 December 2010. The excluded assets are subject to a put contract between the Dexia Guarantors on the one hand and Dexia FP on the other, but the obligations of Dexia pursuant to this second put contract are not guaranteed by the States.

- **Trigger events.** Dexia FP has undertaken vis-à-vis Assured to exercise the put in certain situations in order to assure the effectiveness of the protection mechanism. These different situations are:

  - (i) an asset default, i.e. a failure to pay the principal or the interest due on the assets of the portfolio at the final maturity; in this case the put relates to those assets and the assets are sold to the Dexia Guarantors at their residual par value (i.e. face value) increased by the amount of interest due.

  - (ii) a liquidity default, i.e. a failure by Dexia (at any date prior to 31 October 2011) to comply with its obligations pursuant to the liquidity agreement entered into or to be entered into in favor of Dexia FP; in this case the put relates to a number of assets whose residual par value is equal to the amount of the liquidity default, and the assets will be sold to the Dexia Guarantors at their residual par value increased by the amount of interest due.

  - (iii) a collateral default, i.e. a failure by Dexia to provide, between 29 September and 31 October 2011, collateral to Dexia FP in an amount equal to the difference between the amount of the liabilities pursuant to the GICs and the market value of the assets of Dexia FP after applying a haircut to these assets; in this case, the put relates to a number of assets whose residual par value is equal to the amount of the collateral default and the assets are sold to the Dexia Guarantors at their residual par value increased by the amount of interest due.

  - (iv) an insolvency of Dexia (a defined in the Guarantee Agreement) in which case the put relates to all the assets of Dexia FP portfolio to which the put option relates or on a number of assets whose par value is equal to the total amount of the liabilities pursuant to the GICs if this amount is lower. The assets are sold at their residual par value increased by the amount of interest due.

c. Credit quality of assets

Within the portfolio, the most sensitive exposures as at 31 December 2010, are mainly USD 9 billion of US RMBS of which 89% are Non Investment Grade as well as USD 200 million of Triple-X exposures (Structured Finance positions) of which 50% are Non Investment Grade.

The expected weighted average life is around 9.2 years. A significant portion of the RMBS portfolio has contractual maturity after 2035 and up until 2057 for the longest maturity.

Balance

(USD millions)	AAA	AA	A	BBB	BB	B	CCC & below	TOTAL
RMBS	**185**	**573**	**182**	**55**	**348**	**398**	**7,300**	**9,041**
Subprime	141	481	167	45	281	315	5,026	6,456
Alt-A	44	75	15	9	67	22	1,556	1,788
Option ARM	-	11	-	-	-	11	475	497
Prime Mtg	-	-	-	-	-	-	-	-
CES	-	-	-	-	-	9	113	122
HELOCs	-	7	-	-	-	42	101	150
NIM	-	-	-	-	-	-	0	0
ABS CDO	-	-	-	-	-	-	30	30
Other ABS	**-**	**359**	**127**	**225**	**100**	**-**	**-**	**811**
CLO	-	174	92	74	-	-	-	340
CMBS	-	-	-	151	-	-	-	151
FSA Refi	-	119	-	-	-	-	-	119
Subprime Auto	-	-	-	-	-	-	-	-
Triple-X	-	65	35	-	100	-	-	200
Other assets	**1,978**	**466**	**400**	**895**	**100**	**65**	**-**	**3,905**
Corporate	125	-	-	-	-	-	-	125
Demutualisation	-	63	-	25	-	-	-	88
Domestic IOU	-	-	68	14	-	-	-	82
Full Faith US	1,067	-	-	-	-	-	-	1,067
Military Housing	-	-	59	504	-	-	-	563
Municipal	-	392	77	225	100	65	-	858
Trust Preferreds	-	11	-	-	-	-	-	11
UK Regulated Utility	-	-	196	129	-	-	-	325
US Agency	786	-	-	-	-	-	-	786
TOTAL DECEMBER 2010	**2,163**	**1,398**	**709**	**1,175**	**548**	**463**	**7,300**	**13,757**
% Total	16%	10%	5%	9%	4%	3%	53%	100%
TOTAL DECEMBER 2009	**2,464**	**1,644**	**1,400**	**1,161**	**1,071**	**1,435**	**6,213**	**15,387**
% Total	16%	11%	9%	8%	7%	9%	40%	100%

The main macroeconomic evolutions and assumptions developed by Dexia's economists that may impact the recovery of the portfolio are the following ones:

- **A volatile economic environment** despite recent positive indicators
  According to Dexia's economists, the economic situation in the US has recently evolved positively. After a difficult second and third quarter 2010, in the fourth quarter 2010 we observed an improvement in consumption, investment from corporations and GDP. This improvement in GDP is expected to continue in first quarter 2011 mainly driven by recent tax cuts.

As a whole since the beginning of the crisis, GDP has been very volatile and according to Dexia's economists, this situation may not stabilize before 2013 and as long as the US households and the US states continue to re-balance their finances. GDP is expected to grow by 2.6% in 2011 versus 2.9% in 2010.

On the unemployment side, while new jobs are slowly being created, employment remains substandard, and the unemployment rate is likely to decline at a slow pace. Finally, due to the expectation of mild to low inflation, Dexia's economists expect real term wages to improve in 2011, thus sustaining consumption.

- **The stock of homes** will continue to weigh heavily on the US real estate market at least in 2011
  According to Realty Trac[1], foreclosures reached 1 million units in 2010 and should continue at this level into and beyond 2011. The US real estate market is still in the midst of a deep crisis and there remains a large stock of homes for sale. Based on the current level of housing stocks and the assessed shadow inventory (properties from borrowers in default on their loan and which are very likely to appear on the market for sale in the next few months) that may come to the market within the next 2 to 3 years, it could take 4 to 6 years before the real estate market normalizes. Therefore, Dexia's economists expect a slight further decline in prices in 2011.

(1) Founded in 1996, RealtyTrac® (www.realtytrac.com), is the leading online marketplace of foreclosure properties, with more than 1.5 million default, auction and bank-owned listings from over 2,200 U.S. counties, along with detailed property, loan and home sales data. The company's mission is to make it easier for consumers, investors and real estate professionals to locate, evaluate, buy and sell properties. RealtyTrac collects and aggregates foreclosure data from more than 2,200 counties, covering more than 90 percent of U.S. households, appends the data with estimated property values, comparable sales, loan history, tax lien and bankruptcy records, trustee and lender information and property details and updates the entire database twice daily.

d. Accounting value and treatment

The Dexia FP portfolio has a net accounting value of USD 9.9 billion as at 31 December 2010. This amount is the net of a total portfolio at par of USD 14.3 billion, less collective and specific impairments amounting USD 2.2 billion and negative AFS reserves amounting USD 2.2 billion as well. Within the total portfolio of USD 14.3 billion, USD 0.4 billion are not guaranteed bonds[1] and interests accruals amounts USD 0.1 billion, giving the portfolio analyzed in point c. "Credit quality of assets", of USD 13.8 billion.

On 1 October 2008, in accordance with IAS 39, Dexia reclassified in Loans and Receivables (from the Available-for- Sale category) the illiquid part of the Dexia FP portfolio, which includes all instruments exposed to the US RMBS market.

As a consequence of the reclassification, the Dexia FP portfolio is now composed of two parts:

- Available-for-Sale assets, which are high quality liquid investments at fair value through other comprehensive income. The net accounting value of USD 2,742 million includes USD 408 million of highly liquid bonds not covered by the States' guarantee.

The net AFS portfolio includes a negative AFS reserve (before tax) of USD 0.2 billion. The AFS portfolio value varies with the evolution of the fair value of the underlying bonds. No collective impairment can be recorded on assets classified in AFS portfolio. In case of specific impairment, the AFS reserve is recorded in result of the period, and the difference between the recoverable amount and the net accounting value is recorded in the net interest income, based on the remaining life of the related asset (amortization using the effective interest rate). No impairment is recorded on this AFS portfolio.

- Reclassified Loans and Receivables which are illiquid investments and subject to both specific and collective impairments: net accounting value of USD 7,196 million as at 31 December 2010.

The Loans & Receivables portfolio includes bonds that have been reclassified at fair value on 1 October 2008, due to the illiquidity of some markets. The negative AFS reserve from that date was "frozen" and is amortized on the remaining life of the related bonds via the effective interest rate, with recording in P&L this net negative AFS reserve in case of sale or of impairment. The negative AFS reserve (before tax) amounts USD 2 billion as at 31 December 2010.

A collective impairment has been set up at the moment of reclassification and is updated on a quarterly basis based on the evolution of the not individually impaired portfolio. The collective impairment is based on different assumptions that may influence the level of impairments (see points c and e) and amounts USD 438 million as at 31 December 2010.

Specific impairments amount to USD 1,742 million as at 31 December 2010. Specific impairments are decided by the Impairment Committee based on its evaluation of incurred losses. This evaluation takes into account the expected shortfall of payment of principal and/ or interests, their probable realization in the near future and its own overall estimation of the situation of the underlying portfolio. Once a security is deemed impaired on a specific basis, all its future cash-flows are taken into account for the calculation of the impairment. According to IAS 39, for reclassified bonds in L&R, the interest rate used to calculate the Net Present Value of Cash Flows is not the original interest rate (at purchase date) but the effective interest rate at reclassification date, meaning that this interest rate may be high if the market value of the bond at reclassification date was low. This implies that the net unamortized "frozen" AFS reserve is recycled into result, in addition with expected missing cash flows. The difference between the recoverable amount and the net accounting amount after impairment is subsequently recorded in the net interest income, like for AFS bonds.

The total impairments amount therefore to USD 2,252 million on Reclassified Loans and Receivables which is composed of collective impairments of USD 438 million, specific impairment of USD 1,742 million and effect of the loss of USD 72 million recorded on the exchange of assets (commutation).

(EUR millions)

Changes in the portfolio	2009 – USD	2009 – EUR	2010 – USD	2010 – EUR
AFS portfolio	2,467	1,713	2,742	2,046
Loans and advances – gross	10,273	7,135	9,377	6,998
Specific impairment	(1,656)	(1,150)	(1,742)	(1,300)
Collective impairment	(344)	(239)	(438)	(327)
Loans and advances – net	8,273	5,746	7,197	5,371
TOTAL NET PORTFOLIO	**10,740**	**7,459**	**9,938**	**7,417**

USD/EUR exchange rate: 1.3399 as at 31 December 2010 and 1.4399 as at 31 December 2009.

Dexia FP has also realised losses based on sale of assets and on missing cash flows (shortfalls). The realised losses recognised from inception until 31 December 2010 amounts to USD 624 million.

(1) Bonds purchased after the granting of the guarantee.

e. Assessment of expected economic losses

Risk management estimates quarterly expected losses on the total remaining portfolio (AFS and L&R portfolio) based on models using discounted cash flows, including assumptions that are also used for the collective impairments on not impaired bonds included in the L&R portfolio. Projected economic losses are based on models and assumptions and also include a reserve for model and parameters risks.

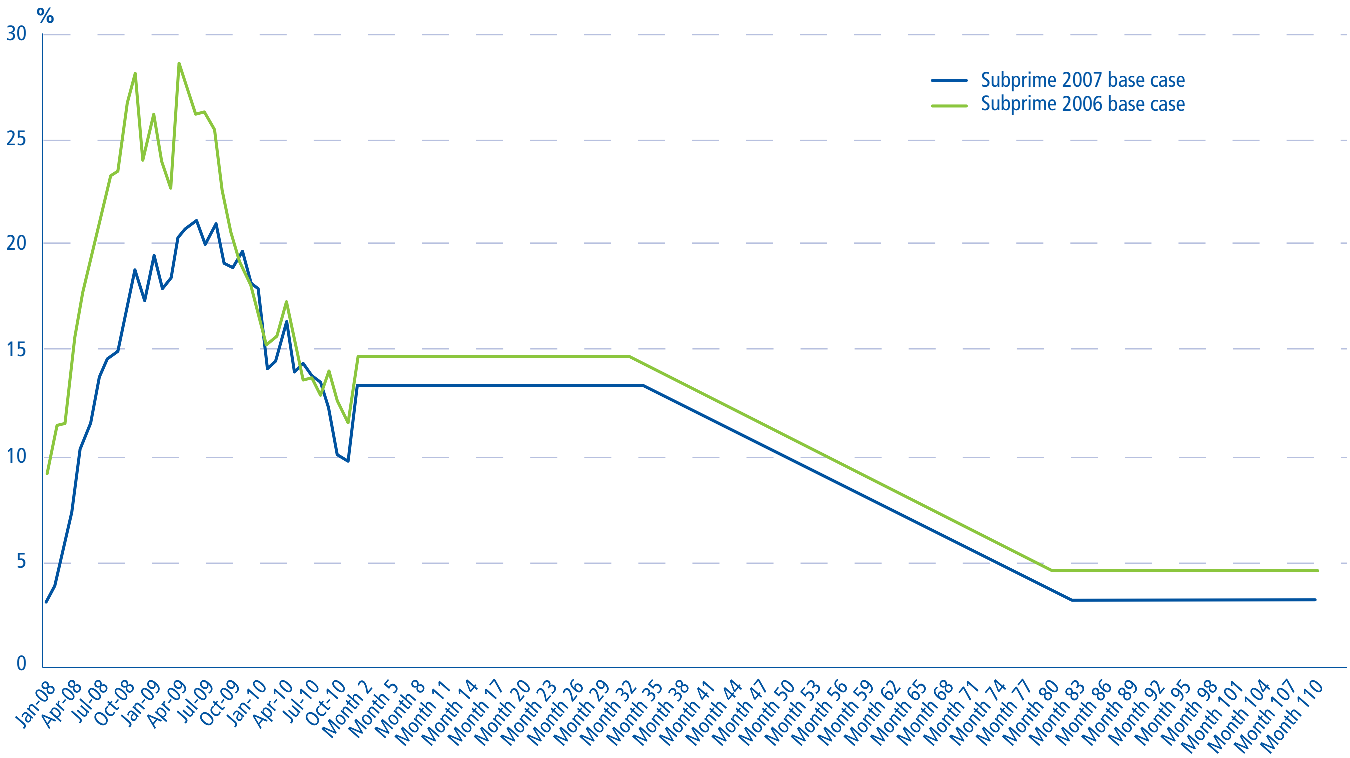
The total future economic losses estimated by Dexia therefore amount USD 1,796 million, being expected in the future, up to the maturity of the securities involved which can be far on time, over 20 years. They represent the management's evaluation as at 31 December 2010 of the net present value (discounted at purchase spread) of the losses the portfolio could generate. Dexia confirms its estimates are done with the best of Dexia's knowledge and appreciation of the US market.

Thus, Dexia adjusted its 4Q 2010 scenario for US RMBS based on the prior economic uncertainties but also taking into account the recent events on the real estate market. As at end December 2010, the amount of projected economic losses have been estimated at USD 1.79 billion in addition to USD 0.6 billion of realised losses.

In a context characterised by a volatile economic environment despite recent positive indicators in the United States and large stocks of homes which will continue to weigh heavily on the real estate market at least in 2011, Dexia adapted its scenario taking into account the following considerations:

- Over the past two years, servicers of mortgage loans have dramatically changed the way they treat seriously delinquent loans by modifying a significant part of borrowers by extending the scheduled maturity of the loans or reducing the interest rates (especially Subprime borrowers).These modifications are translating into new amortization schedules for borrowers by decreasing the interest rate and thus reducing the monthly payments. However, Dexia considers that a significant proportion of these modified borrowers should re-default on time. While default rates have improved in the last few months due to these modifications, Dexia decided to extend its default curves to reflect this risk. Then, Dexia does not expect default rates to come back to the level of the pre-crisis before 7 years.

Shape of the Conditional Default Rate (CDR) curve (weighted average) – Subprime 2006 and 2007



- In addition, the modifications have also been translated in the model into interest rate reductions between 100 and 300 bps (reducing the projected excess cash flow in our structures) and capitalization of the previously unpaid balances, both based on data observed over the previous 6 months.

- At last, due to the weak visibility of home prices, the recent slight increase in observed severities, and trying to consider the potential impact "foreclosure freeze" could have on loss severity, Dexia decided to take a more conservative severity assumption by applying a severity curve flat for life (previously in 3Q 2010 it declined over time after two years).

At last an active workout process has been recently launched by Dexia to optimize recovery on the US RMBS portfolio:

- In January 2011, Dexia filed lawsuit against certain parties relating to US RMBS purchased by Dexia during 2005, 2006 and 2007;

- Full-time RMBS recovery activity with a dedicated experienced team in New York will be implemented in 2011;

- However, at this stage Dexia does not take into account any potential positive impacts of initiatives in the market but also within Dexia related to Put Backs or Litigation procedures[1].

f. Sensitivity analysis

As at 31 December 2010, based on the recent evolution of the portfolio, Dexia Base Case Scenario showing a USD 1,796 million of projected economic losses assumes the following key changes in the model parameters: (i) the current default rates used for projections (end November 2010) would not improve within the next 3 years and would need 4 additional years to go back to the levels which, in most cases, would stay above pre-crisis ones, (ii) current loss severity rates (loss expected on a property that would have been sold following a foreclosure process) would not show any improvement up until the end of the transactions.

Dexia quarterly performs a sensitivity analysis on the estimation of economic losses. Key results of this analysis are the following:

- For instance, under a scenario based on deteriorated default rates vs. the base case (more limited recovery of defaults within 7 years) coupled with a higher loss severity (+5% compared to the current levels) that would imply a futher deterioration in home prices with no improvement up until the end of the transactions, the expected economic losses would increase to USD 2.3 billion;

- As another example, under a scenario based on a flat Credit Default Rates, severity loss rates and prepayments rates curves "for ever" starting from the current levels (thus assuming that the current levels for these key parameters would never improve up until the end of the transactions), the expected economic losses would increase to USD 2.8 billion;

- A faster recovery in the US economy by 18 months compared to the Base Case (improvement expected in 30 months instead of 48 months in the Base Case), would decrease the expected economic losses to USD 1.3 billion.

b. Maximum credit risk exposure

(EUR millions)	As at 31 December 2009	As at 31 December 2010
Available-for-sale financial assets (excluding variable-income securities)	45,489	38,282
Financial assets designated at fair value (excluding variable-income securities)	227	170
Held-for-trading financial assets (excluding variable-income securities)	3,204	2,824
Loans and advances (at amortised cost)	256,086	245,492
Held-to-maturity financial assets	1,003	839
Derivatives	3,399	4,829
Other financial instruments	512	301
Loan commitments granted	41,172	30,781
Guarantee commitments granted	32,545	38,881
TOTAL	**383,637**	**362,399**

(1) Recovery options to consider for every RMBS platform or CUSIP include (i) remedies based on the RMBS contracts, including the right to putback loans and (ii) non-contractual remedies, such as direct lawsuits against defendants such as the RMBS underwriters, originators, servicers and other parties based on fraud, securities law violations and other wrong-doing. Litigation can also result from pursuing contractual remedies, in the form of 'breach of contract' litigation (e.g., to force a party to honor its obligation to repurchase bad loans).

The collateral held by the Dexia Crédit Local Group is comprised of financial collateral.

Financial collateral consists primarily of cash collateral and term deposits, but also includes investment grade bonds (AAA to AA sovereign or banking issuers), units in mutual funds and equities listed on recognised markets.

The table above includes only collateral eligible under Basel II and held directly by the Dexia Crédit Local Group.

c. Credit quality of unimpaired financial assets

(EUR millions)	As at 31 December 2010 AAA to AA-	A+ to BBB-	Non investment grade	Total
Available-for-sale financial assets (excluding variable-income securities)	15,045	20,674	2, 534	38,253
Financial assets designated at fair value (excluding variable-income securities)		118	49	167
Held-for-trading financial assets (excluding variable-income securities)	881	1,695	238	2,814
Loans and advances (at amortised cost)	109,297	111,991	22,625	243,913
Held-to-maturity financial assets	457	382	0	839
Derivatives	1,599	2,495	654	4,748
Other financial instruments	4	5	292	301
Loan commitments granted	21,822	7,368	1,523	30,713
Guarantee commitments granted	4,323	33,876	650	38,849
Impaired financial assets				992
Past-due financial assets				810
TOTAL	**153,428**	**178,604**	**28,565**	**362,399**

There are no significant restructured loan assets on the balance sheet.

The credit quality of financial assets reflects internal credit ratings (Basel II standard), or external ratings when internal ratings are not available.

d. Past-due and impaired financial assets

	As at 31 December 2009					As at 31 December 2010				
	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets	Collateral received on past due or impaired loans	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets	Collateral received on past due or impaired loans
(EUR millions)	Less than 90 days	90 days to 180 days	Over 180 days			Less than 90 days	90 days to 180 days	Over 180 days		
Available-for-sale financial assets (excluding variable-income securities)	0	0	0	215	0	0	0	0	240	0
Loans and advances (at amortised cost) (1)	116	291	650	2,447	279	89	53	355	3,388	197
Held-to-maturity financial assets	0	0	0	0	0	0	0	0	0	0
Other financial instruments	0	0	0	215	0	0	0	0	216	0
TOTAL	**116**	**291**	**650**	**2,877**	**279**	**89**	**53**	**355**	**3,844**	**197**

(1) As at 31 December 2010, the carrying amount of individually impaired assets includes an amount of EUR 2,615 million in respect of financial products for which no guarantee is presented in this note: the assets of the financial products portfolio are covered by a guarantee from the French and Belgian governments described in note 4.3 "Transactions with related parties".

Financial assets are classified as impaired in accordance with the description made in chapter 1.3 "Accounting policies and valuation methods".

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

(EUR millions)	As at 31 December 2009	As at 31 December 2010
Cash	0	0
Equity instruments	0	0
Debt instruments	0	0
Loans and advances	0	0
Tangible assets	0	3
Investment property	0	0
Other	0	0
TOTAL	**0**	**3**

f. Movements on impairment of financial assets

	2009							
(EUR millions)	As at 1 January	Additions	Reversals	Other adjustments (1)	Transfers	As at 31 December	Recoveries recognised directly in profit or loss	Charge-offs recognised directly in profit or loss
Specific impairment	**(1,591)**	**(501)**	**174**	**95**	**0**	**(1,823)**	**3**	**(30)**
Interbank loans and advances	0	0	0	0	0	0	0	0
Customer loans and advances	(1,159)	(488)	161	104	0	(1,382)	3	(30)
Held-to-maturity securities	0	0	0	0	0	0	0	0
Available-for-sale securities (fixed-or variable income)	(250)	(13)	13	2	0	(248)	0	0
Fixed-income instruments	*(195)*	*(3)*	*8*	*0*	*0*	*(190)*	*0*	*0*
Variable-income instruments	*(55)*	*(10)*	*5*	*2*	*0*	*(58)*	*0*	*0*
Other accounts and receivables	(182)	0	0	(11)	0	(193)	0	0
Collective impairment	**(759)**	**(174)**	**166**	**9**	**0**	**(758)**		
Interbank loans and advances	(9)	(2)	1	0	0	(10)		
Customer loans and advances	(750)	(172)	165	9	0	(748)		
Held-to-maturity financial assets	0	0	0	0	0	0		
TOTAL	**(2,350)**	**(675)**	**340**	**104**	**0**	**(2,581)**	**3**	**(30)**

(1) Other adjustments include notably the impact of changes in exchange rates and in the consolidation scope during the year.

(EUR millions)	2010							
	As at 1 January	Additions	Reversals	Other adjustments[1]	Transfers	As at 31 December	Recoveries recognised directly in profit or loss	Charge-offs recognised directly in profit or loss
Specific impairment	**(1,823)**	**(921)**	**391**	**(24)**	**70**	**(2,307)**	**8**	**(61)**
Interbank loans and advances	0	0	0	0	0	0	0	0
Customer loans and advances	(1,382)	(908)	363	(18)	70	(1,875)	8	(61)
Held-to-maturity securities	0	0	0	0	0	0	0	0
Available-for-sale securities (fixed or variable-income	(248)	(13)	28	(5)	0	(238)	0	0
Fixed-income instruments	(190)	(10)	20	(2)	0	(182)	0	0
Variable-income instruments	(58)	(3)	8	(3)	0	(56)	0	0
Other accounts and receivables	(193)	0	0	(1)	0	(194)	0	0
Collective impairment	**(758)**	**(168)**	**313**	**(46)**	**0**	**(659)**		
Interbank loans and advances	(10)	(3)	3	0	0	(10)		
Customer loans and advances	(748)	(165)	310	(46)	0	(649)		
Held-to-maturity securities	0	0	0	0	0	0		
TOTAL	**(2,581)**	**(1,089)**	**704**	**(70)**	**70**	**(2,966)**	**8**	**(61)**

(1) Other adjustments include notably the impact of changes in exchange rates and in the consolidation scope during the year.

g. Credit risk on loans and advances designated at fair value through profit or loss

(EUR millions)	Maximum exposure to credit risk	Maximum exposure to credit risk hedged by a credit derivative	Change in the fair value attributable to changes in the credit risk		Change in the fair value of credit derivatives hedging loans and advances designated at fair value through profit or loss	
			For the period	Cumulative	For the period	Cumulative
As at 31 December 2009	7	0	0	0	0	0
As at 31 December 2010	37	0	0	0	0	0

Every quarter, the Dexia Crédit Local Group measures the fair value of its assets by discounting the future cash flows.

h. Credit risk on financial liabilities designated at fair value through profit or loss

(EUR millions)	Carrying amount	Amount of change in the fair value attributable to changes in the credit risk – For the period	Amount of change in the fair value attributable to changes in the credit risk – Cumulative	Difference between the carrying amount and the amount due contractually at maturity (1)
As at 31 December 2009	4,681	130	(226)	172
As at 31 December 2010	4,356	(40)	(266)	302

(1) Amount includes premiums/discounts and changes in market value.

The fair value option is essentially used by Dexia FP Holdings Inc. and FSA Global Funding Ltd. for financial liabilities for which the conditions relating to hedge accounting are not met or might not be met.

The credit spread used when revaluing these liabilities is Dexia's long-term refinancing spread.

7.3. Collateral

a. Nature of the assets received as collateral that can be sold or repledged

(EUR millions)	2009 Fair value of collateral held	2009 Fair value of collateral sold or repledged	2010 Fair value of collateral held	2010 Fair value of collateral sold or repledged
Equity instruments	0	0	0	0
Debt securities	706	0	1,288	0
Loans and advances	13	0	0	0
Non-financial assets	0	0	0	0
TOTAL	**719**	**0**	**1,288**	**0**

Collateral is obtained in connection with the repurchase agreement activities.

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

(EUR millions)	2009	2010
Carrying amount of financial assets pledged as collateral for liabilities	47,377	59,261
Carrying amount of financial assets pledged as collateral for contingent liabilities	0	0

Assets are pledged primarily to collateralise repurchase agreements and debts to the Dexia Crédit Local Group sister companies.

7.4. Risk on resetting of interest rates: analysis by time until next interest rate reset date

Demand deposits are reported in the "Demand" column as the information presented below takes into account the current maturity until the next date on which interest rates are reset from an accounting standpoint, rather than assumptions based on observed behavioural data.

a. Analysis of assets

	As at 31 December 2010									
(EUR millions)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash, central banks and postal checking accounts	422	2	0	0	0	0	0			424
Financial assets at fair value through profit or loss	0	747	236	568	1,364	0	1,183	12,588		16,686
Derivatives							2,610	9,707		12,317
Available-for-sale financial assets	378	5,531	1,919	8,715	21,816	93	615	254	(238)	39,083
Interbank loans and advances	8,644	6,400	1,810	2,855	2,123	0	110	692	(9)	22,625
Customer loans and advances	2,014	54,197	32,289	29,555	107,326	0	2,169	14,957	(2,525)	239,982
Fair value revaluation of portfolio hedge								2,144		2,144
Held-to-maturity financial assets	0	0	94	133	602	0	10	0	0	839
Tax assets						4,569			(2,935)	1,634
Accruals and other assets	109	24,237	98	0	0	58	8	0	(194)	24,316
Investments in associates						0			0	0
Tangible assets						737			(208)	529
Intangible assets and goodwill						716			(456)	260
Non-current assets held for sale						19		0	0	19
TOTAL	**11,567**	**91,114**	**36,446**	**41,826**	**133,231**	**6,192**	**6,705**	**40,342**	**(6,565)**	**360,858**

b. Analysis of liabilities excluding shareholders' equity

	As at 31 December 2010								
(EUR millions)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity	Accrued interest	Fair value adjustment	Total
Central banks, postal checking accounts, interbank borrowings and deposits	2,969	75,055	9,914	3,490	4,853	0	163	143	96,587
Financial liabilities at fair value through profit and loss	0	859	151	1,196	1,752	0	1,246	14,052	19,256
Hedging derivatives							2,733	28,315	31,048
Customer borrowings and deposits	2,482	6,338	1,151	1,461	1,856	0	85	84	13,457
Debt securities	2	48,458	38,340	45,026	52,252	0	2,708	3,282	190,068
Fair value revaluation of portfolio hedge								1,984	1,984
Tax liabilities						61			61
Accruals and other liabilities	65	3,068	75	17	82	349	3		3,659
Technical provisions of insurance companies						0			0
Provisions						137			137
Subordinated debt	0	3,656	30	167	396	0	29	41	4,319
Liabilities included in disposal groups held for sale						0			0
TOTAL	**5,518**	**137,434**	**49,661**	**51,357**	**61,191**	**547**	**6,967**	**47,901**	**360,576**

c. Sensitivity gap of the balance sheet

(EUR millions)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity
As at 31 December 2010	6,049	(46,320)	(13,215)	(9,531)	72,040	5,645

7.5. Sensitivity to interest rate risk and other market risks

Sensitivity to interest rate risk and other market risks was measured as follows in 2010 (see 2009 annual report for the measure of sensitivity to risks in 2009):

a. Treasury and Financial Markets (TFM)

TFM manages exposure to risk on the held-for-trading portfolio and to a portion of the risk on the banking book:

- trading book: general interest rate, foreign exchange, equity, credit spread and other risks (inflation, CO_2) are monitored using Value at Risk (VaR) limits;
- banking book, Cash and Liquidity Management (CLM): liquidity risk is monitored using VaR and interest rate sensitivity indicators;
- banking book, Portfolio Management Group (PMG): credit risk is monitored using credit spread indicators.

b. *Balance Sheet Management* (BSM)

- interest rate risk is monitored using sensitivity and VaR limits;
- credit spread risk is monitored using spread sensitivities.

Treasury and Financial Markets

Treasury and Financial Market activities are mainly intended as a Group support function.

TFM engages in trading activities, and takes non trading-related risk positions in relation to the short-term balance sheet and to capital management activities.

Following the reorientation of TFM activities, the Risk Committee meeting held on 7 November 2008 decided to reduce TFM's VaR limits.

TFM's limits have been reduced to EUR 42 million in the second quarter of 2010.

TFM also manages Portfolio Management Group (PMG) securities on banking books which have been largely put in run-off.

Detail of VaR usage

The Dexia Crédit Local Group's usage of VaR is detailed in the table below.

The Dexia Crédit Local Group calculates interest rate and forex VaR based mainly on a parametrical method (99%, 10 days) and credit spread VaR using an historical method based on sensitivity.

However, the PMG exposure on banking books is not included in the table below as it is monitored through spread sensitivity and not in VaR (see below).

VaR (10 days, 99%) (EUR millions)		2009							
		Interest rate and forex (banking and trading)				Spread (trading)			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By risk factor	Average	10.7	7.9	8.3	7.8	25.7	28.0	21.0	13.1
	Maximum	15.3	13.1	11.8	17.5	36.0	36.1	27.0	15.5
		Q1		Q2		Q3		Q4	
Global	Average	39.1		43.2		36.6		31.8	
	Maximum	48.0		56.7		43.4		41.1	
	Limit	60.7		60.0		48.1		43.4	

VaR (10 days, 99%) (EUR millions)		2010							
		Interest rate and forex (banking and trading)				Spread (trading)			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By risk factor	Average	3.7	4.3	4.6	3.7	20.7	16.5	12.4	8.9
	Maximum	5.8	6.0	7.1	6.3	24.8	18.3	16.0	12.1
		Q1		Q2		Q3		Q4	
Global	Average	24.4		20.8		17.0		12.6	
	Maximum	30.6		23.8		22.8		16.7	
	Limit	43.4		42.0		42.0		42.0	

Risks on equities (trading), inflation, commodities and CO_2 have no or immaterial VaR.

CLM risk is also monitored using interest rate sensitivity limits.

As at 31 December 2010, the sensitivity to a 1% change in interest rates amounted to negative EUR 75.3 million compared with a limit of EUR 115 million.

PMG exposure (banking portfolio only, largely in run-off)

Exposure

(EUR milliards)	2009	2010
Exposure	96.71	79.83

Interest rate sensitivity

The interest rate risk on the PMG portfolio is hedged, its sole purpose being to manage the credit spread: therefore it has a very limited sensitivity to changes in interest rates.

Credit spread sensitivity

This estimates the sensitivity of the available-for-sale securities fair value reserve to a one basis point spread increase, in EUR millions.

(EUR millions)	2009	2010
TFM banking portfolio spread	(24.820)	(25.280)

BSM interest rate and credit spread risks

BSM falls under the direct decision and control authority of Group ALCO and the Funding and Liquidity Committee.

Sensitivity measures the change in the balance sheet net economic value when interest rates rise by 1% across the entire curve.

For the sensitivity calculation, the term to maturity of the portfolio until the next interest rate refixing date is defined using assumptions based on the observed behaviour of customers and not on the contractual repayment date (see note 7.4).

Banking companies, excluding Dexia FP

	2009							
	Interest rate (1)(2)				Credit spread (1)			
(EUR millions)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sensitivity	(17)	(21)	(34)	(13)	(5)	(5)	(6)	(4)

(1) Sensitivity to a 1% shift.
(2) As at 31 December 2009, BSM's interest rate sensitivity limit amounted to EUR 94 million (for a 1% shift).

	2010							
	Interest rate (1)(2)				Credit spread (1)			
(EUR millions)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sensitivity	(15)	(48)	(22)	(3)	(5)	(5)	(5)	(4)

(1) Sensitivity to a 1% shift.
(2) As at 31 December 2009, BSM's interest rate sensitivity limit amounted to EUR 94 million (for a 1% shift).

Dexia FP's interest rate and credit spread sensitivity

The Dexia FP portfolio consists primarily of U.S. dollar-denominated asset-backed securities, U.S. agency and government securities and mortgage-backed securities: they are part of the run-off portfolio.

The assets and liabilities are hedged using interest rate swaps and futures.

Certain categories of assets and liabilities are economically hedged, without the use of derivatives.

The Dexia FP portfolio totalled EUR 10.4 billion as at 31 December 2010.

The interest rate risk amounted to negative EUR 8.5 million compared with a limit of EUR 42 million (for a 1% shift), while the spread sensitivity on the available-for-sale reserve stood at negative EUR 1.31 million (sensitivity to a 1bp shift).

7.6. Sensitivity of listed equities

Value at Risk (VaR) measures the potential change in market value, while the notion of Earnings at Risk (EaR) measures the impact of the VaR scenario on reported earnings.

The VaR calculated by Dexia Crédit Local measures the potential loss over a 99% confidence interval for a 10-day holding period.

EaR is lower than VaR because most listed equities have a positive AFS reserve.

The -25% column represents the amount of the impairment that could be recognised if share prices were to fall by 25%.

(EUR millions)	Market value	VaR(1)	% VaR	EaR	-25%
As at 31 March 2009	20.7	7.5	36.2%	(5.5)	(6.3)
As at 30 June 2009	11.0	4.0	36.4%	0.0	0.0
As at 30 September 2009	14.9	5.0	33.9%	0.0	0.0
As at 31 December 2009	**2.9**	**0.6**	**21.0%**	**0.0**	**0.0**
As at 31 December 2009(2)	0.0	0.0	0.0%	0.0	0.0
As at 30 June 2010(2)	0.0	0.0	0.0%	0.0	0.0
As at 30 September 2010(2)	0.0	0.0	0.0%	0.0	0.0
AS AT 31 DECEMBER 2010(2)	**0.0**	**0.0**	**0.0%**	**0.0**	**0.0**

(1) VaR measures the potential loss that could be incurred on a position of EUR 100 million.
(2) The Dexia Crédit Local Group had almost no listed equities in 2010.

7.7. Liquidity risk

a. Analysis by term to maturity

A large part of the balance sheet consists of the revaluation of assets, liabilities and derivatives. As such revaluations vary constantly and cannot therefore be linked to the maturity of the financial instruments, they are presented in a separate column.

Demand deposits and saving deposits are included in the "Demand" column, even though they have no fixed repayment date.

Analysis of assets

	As at 31 December 2010									
(EUR millions)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity	Accrued interest	Fair value adjustment	Impairment	Total
Cash, central banks and postal checking accounts	422	2	0	0	0	0	0			424
Loans and securities at fair value through profit or loss	0	53	70	579	2,213	0	1,183	12,588		16,686
Derivatives							2,610	9,707		12,317
Available-for-sale financial assets	374	1,138	957	11,296	24,592	95	615	254	(238)	39,083
Interbank loans and advances	5,103	6,275	2,184	5,214	3,056	0	110	692	(9)	22,625
Customer loans and advances	770	3,537	10,224	50,496	160,354	0	2,169	14,957	(2,525)	239,982
Fair value revaluation of portfolio hedge								2,144		2,144
Held-to-maturity financial assets	0	0	53	174	602	0	10	0	0	839
Tax assets						4,569			(2,935)	1,634
Accruals and other assets	9	24,147	110	78	100	58	8	0	(194)	24,316
Investments in associates						0			0	0
Tangible assets						737			(208)	529
Intangible assets and goodwill						716			(456)	260
Non-current assets held for sale						19		0	0	19
TOTAL	**6,678**	**35,152**	**13,598**	**67,837**	**190,917**	**6,194**	**6,705**	**40,342**	**(6,565)**	**360,858**

Analysis of liabilities, excluding shareholders'equity

(EUR millions)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity	Accrued interest	Fair value adjustment	Total
	As at 31 December 2010								
Central banks, postal checking accounts, interbank borrowings and deposits	2,610	59,844	5,997	15,254	12,576	0	163	143	96,587
Financial liabilities at fair value through profit and loss	0	46	291	1 703	1,918	0	1,246	14,052	19,256
Hedging derivatives							2,733	28,315	31,048
Customer borrowings and deposits	2,201	3,825	1,614	3,240	2,408	0	85	84	13,457
Debt securities	2	16,675	28,286	75,039	64,076	0	2,708	3,282	190,068
Fair value revaluation of portfolio hedge								1,984	1,984
Tax liabilities						61			61
Accruals and other liabilities	21	3,051	124	22	89	349	3		3,659
Technical provisions of insurance companies						0			0
Provisions						137			137
Subordinated debt	0	0	25	1,447	2,777	0	29	41	4,319
Liabilities included in disposal groups held for sale									0
TOTAL	**4,834**	**83,441**	**36,337**	**96,705**	**83,844**	**547**	**6,967**	**47,901**	**360,576**

Net liquidity gap

(EUR millions)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity
As at 31 December 2010	1,844	(48,289)	(22,739)	(28,868)	107,073	5,647

This table takes into account neither the liquidity of assets nor any decision to refinance an asset; certain long-term assets may be sold to meet liquidity needs.

b. Steps taken to improve the Dexia Crédit Local group's liquidity

In 2010, the Group made substantial efforts to reduce the liquidity gap, particularly in terms of asset disposals, being EUR 24 billion with an average maturity of 5.6 years, and the issue of long-term instruments with or without State guarantees (respectively 55% and 45%) totalling EUR 42 billion with an average maturity of 4.9 years (see note 7.0 Risk exposure and hedging strategies, paragraph 2.4 Liquidity risk).

7.8. Currency risk

Classification by original currency (EUR millions)	EUR	Other EU currencies	US dollars	Other currencies	Total
	As at 31 December 2009				
Total assets	247,531	21,891	56,788	34,055	360,265
Total liabilities and shareholders' equity	265,624	14,798	57,411	22,432	360,265
NET BALANCE SHEET POSITION	**(18,093)**	**7,093**	**(623)**	**11,623**	**0**

Classification by original currency (EUR millions)	EUR	Other EU currencies	US dollars	Other currencies	Total
	As at 31 December 2010				
Total assets	258,772	23,691	50,229	28,166	360,858
Total liabilities and shareholders' equity	262,515	17,703	62,268	18,372	360,858
NET BALANCE SHEET POSITION	**(3,743)**	**5,988**	**(12,039)**	**9,794**	**0**

7.9. Risk weighted volume

(EUR millions)	2009	2010
Credit risk	70,738	66,363
Market risk	1,368	978
Operational risk	2,784	2,241
TOTAL	**74,890**	**69,582**

8. Analysis by geographical region and line of business

a. Analysis by geographical region

(EUR millions)	Eurozone (countries using the euro)	Rest of Europe	United States	Rest of world	Total
As at 31 December 2009					
Net banking income	1211	62	573	6	**1852**
Income from associates	(1)	0	0	0	**(1)**
Income before income taxes	734	31	(158)	(48)	**559**
Total assets	**305,023**	**730**	**46,189**	**8,323**	**360,265**
of which, investments in associates	*0*	*0*	*0*	*0*	***0***
As at 31 December 2010					
Net banking income	238	53	(52)	(50)	**189**
Income from associates	0	0	0	0	**0**
Income before income taxes	(138)	51	(601)	(57)	**(745)**
Total assets	**315,650**	**358**	**42,177**	**2,673**	**360,858**
of which, investments in associates	*0*	*0*	*0*	*0*	***0***

The geographical region is assigned on the basis of the country in which the company that engaged in the transaction is located, and not the country in which the counterparty is located.

b. Analysis by line of business

The business segmentation was adapted to Dexia Crédit Local's new profile and strategic directions and now comprises two divisions:

- the Core division, which includes the two lines of business covering operational activities focused on client franchises: Public and Wholesale Banking, and Retail and Commercial Banking, as well as a third segment, named Group Centre, including treasury operations and the former Central Asset segment;
- the Legacy portfolio management division, which includes portfolios in run-off (non-core PWB loans, bonds and financial products portfolio in run-off), in accordance with the European Commission decision.

The 2009 figures have been revised.

The Legacy portfolio management division has dedicated funding. As such, the State guaranteed funding is allocated to this division.

Interest on equity allocated by the Group Centre to the lines of business is now calculated as follows:

- for the Core division segments, on the basis of economic equity;
- for the Legacy portfolio management division, on the basis of the normative equity (i.e. 12.5% of the weighted risks).

Return on allocated equity measures the performance of each business line.

Financial information relating to investments sold is disclosed:

- in the Legacy portfolio management divison if the sale is made in connection with the undertakings given to the European Commission;
- in the Group Centre segment in other cases.

(EUR millions)	Core Division: Public and Wholesale Banking	Core Division: Retail and Commercial banking	Core Division: Group Centre	Core Division: Sub-total	Legacy Portfolio Management Division	Total
As at 31 December 2009						
Net banking income	754	59	16	829	1 023	**1,852**
Income from associates	0	0	0	0	(1)	**(1)**
Income before income taxes	381	(4)	(87)	290	269	**559**
Assets	**175,084**	**1,674**	**66,681**	**243,439**	**116,826**	**360,265**
of which, investments in associates	*0*	*0*	*0*	*0*	*0*	*0*
Liabilities	**5,485**	**1,874**	**345,821**	**353,180**	**7,085**	**360,265**
As at 31 December 2010						
Net banking income	494	62	(29)	527	(338)	**189**
Income from associates	0	0	0	0	0	**0**
Income before income taxes	281	11	(135)	157	(902)	**(745)**
Assets	**170,720**	**1,851**	**92,089**	**264,660**	**96,198**	**360,858**
of which, investments in associates	*0*	*0*	*0*	*0*	*0*	*0*
Liabilities	**6,050**	**1,662**	**348,135**	**355,847**	**5,011**	**360,858**

Various costs and income are retroceded or transferred at market conditions in the management accounts between the various lines of business and, more particularly, between the commercial product lines, financial markets and new lending and service centres. The net result of each product line also includes:

- payments of commercial transformation margins, including the costs of managing such transformations and the capital allocated to this activity on the basis of the amount of outstanding medium- and long-term loans;
- interest on economic capital: economic capital is allocated to the commercial product lines for internal purposes, and return on economic capital is used to measure the performance of each commercial line;
- the cost of funding.

Statutory Auditor's Report on the consolidated financial statements

This is a free translation into English of the Statutory Auditors' report on the consolidated financial statements issued in the French language and is provided solely for the convenience of English speaking users.

The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes explanatory paragraphs discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were made for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.

This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders:

In compliance with the assignment entrusted to us by your Shareholder's Meeting, we hereby report to you, for the year ended 31 December 2010, on:

- the audit of the accompanying consolidated financial statements of Dexia Crédit Local;
- the justification of our assessments;
- the specific verification required by law.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, using sample testing techniques or other selection methods, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall financial statements presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial situation of Dexia Crédit Local as at 31 December 2010, and of the results of its operations for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

Without qualifying our opinion, we draw your attention to note 1.3 to the consolidated financial statements which presents the change in accounting methods applied since 1 January 2010.

II. Justification of assessments

In accordance with the requirements of Article L.823-9 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we bring to your attention the following matters:

ACCOUNTING PRINCIPLES:

Note 1.3 to the consolidated financial statements presents the changes in accounting methods made by your Company during year ended 31 December 2010 following application of new standards and interpretations or revised standards. As part of our assessment of the accounting policies adopted by your Company, we have verified the correct application of these changes in accounting methods and reviewed the related disclosures.

ACCOUNTING ESTIMATES:

Measurement of financial instruments

- In the context of a still uncertain economic environment and continuing high volatility in financial markets, your Company, as mentioned in note 1.3 to the consolidated financial statements, uses internal models and methodologies to value financial instruments that are not listed on active markets, and for the booking of any impairment.

- We reviewed control procedures for the identification of financial instruments that can no longer be traded on an active market or for which market parameters can no longer be observed, and determined the models used to measure them; evaluated the appropriateness of the data and assumptions; and verified that the risks and results related to these instruments were taken into account.

Measurement of certain financial liabilities accounted at fair value

- As mentioned in note 3.1 to the consolidated financial statements, your Company assessed the impact of changes in its own credit risk with respect to the measurement of certain financial liabilities measured at fair value through profit and loss. We have verified the appropriateness of the data used for this purpose.

Impairment of credit and counterparty risks

- Your Company records impairment provisions to cover the credit risks inherent to its activities, as mentioned on note 1.3 to the consolidated financial statements. We examined the system used to control monitoring of credit risks, impairment procedures, evaluation of the risk of non-collection and the level of credit risk cover provided by specific and collective provisions.

- More specifically, your Company records reserves against the US real estate portfolio of its Dexia Financial Products subsidiary – on the basis of the accounting methods described in note 7.2 to the consolidated financial statements. Our work consisted of reviewing management's analysis of on the credit quality of these assets, the estimate of expected economic losses and all major underlying assumptions made, as set out in this note that also describes the State Guarantee mechanism in favour of the Group in respect of this exposure and the sensitivity of these estimates to any future change of some of these assumptions.

Accounting of deferred tax assets

- As mentioned in note 4.2 to the consolidated financial statements, your Company has booked deferred tax assets on the fair value reserve for available-for-sale financial assets and cash flow hedges.

- We examined the main estimates and assumptions that led to the recognition of these deferred taxes, and assumptions regarding non-recovery.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we expressed in the first part of this report.

III. Specific verification

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law of the information presented in the Group management report.

We have no matters to report as to its fair presentation and consistency with the consolidated financial statements.

Courbevoie and Neuilly-sur-Seine - 5 April 2011

The Statutory Auditors

French original signed by Mazars : Virginie Chauvin, Hervé Hélias et Deloitte & Associés : José-Luis Garcia.

5 – Financial statements

Balance sheet

Assets

(EUR millions)		Note	As at 31 December 2008	As at 31 December 2009	As at 31 December 2010
I.	Cash, central banks and postal checking accounts	*2.1*	275	238	131
II.	Government securities	*2.2*	3,066	3,235	2,554
III.	Interbank loans and advances	*2.3*	34,289	41,624	38,702
IV.	Customer loans and advances	*2.4*	51,048	49,207	44,791
V.	Bonds and other fixed-income securities	*2.5*	83,144	60,057	53,764
VI.	Equities and other variable-income securities	*2.6*	299	281	278
VII.	Long-term equity investments	*2.7*	3,077	2,650	2,965
VIII.	Intangible assets	*2.8*	54	46	43
IX.	Tangible assets	*2.9*	18	14	12
X.	Unpaid capital		0	0	0
XI.	Uncalled capital		0	0	0
XII.	Own stock		0	0	0
XIII.	Other assets	*2.10*	18,239	12,983	18,096
XIV.	Accruals	*2.10*	19,935	9,740	11 221
TOTAL ASSETS			**213,444**	**180,075**	**172,557**

Financial statements

Liabilities and equity

(EUR millions)	Note	As at 31 December 2008	As at 31 December 2009	As at 31 December 2010
I. Interbank borrowings and deposits	*3.1*	129,716	84,299	65,026
II. Customer deposits	*3.2*	3,581	1,910	2,495
III. Debt securities	*3.3*	39,502	67,361	73,901
IV. Other liabilities	*3.4*	12,689	5,660	8,218
V. Accruals	*3.4*	19,451	10,980	13,308
VI. Provisions for risks and charges	*3.5*	1,840	2,625	3,743
VII. General banking risks reserve		0	0	0
VIII. Subordinated debt	*3.6*	5,423	5,271	4,757
EQUITY	***3.7***	**1,242**	**1,969**	**1,109**
IX. Capital stock		501	501	501
X. Additional paid-in capital		5,414	861	1,501
XI. Reserves and retained earnings		264	(92)	637
XVII. Net income for the year		(4,937)	699	(1,530)
TOTAL LIABILITIES AND EQUITY		**213,444**	**180,075**	**172,557**

Off-balance sheet items

(EUR millions)		Note	As at 31 December 2008	As at 31 December 2009	As at 31 December 2010
COMMITMENTS GIVEN					
I.	Financing commitments given	*4.1*	42,833	42,909	36,379
II.	Guarantees given	*4.2*	53,332	58,312	56,834
III.	Other commitments given	*4.3*	35,029	31,526	29,922
COMMITMENTS RECEIVED					
IV.	Financing commitments received	*4.4*	9,912	4,980	5,903
V.	Guarantees received	*4.4*	13,913	23,987	29,327
VI.	Commitments related to securities	*4.5*	604	552	416
VII.	Commitments related to foreign currency transactions	*4.6*	105,325	82,385	74,707
VIII.	Commitments related to forward and derivative financial instruments	*4.7*	822,963	600,116	558,327

Income statement

(EUR millions)		Note	As at 31 December 2008	As at 31 December 2009	As at 31 December 2010
I.	Interest income	5.1	27,254	10,017	6,663
II.	Interest expense	5.1	(27,200)	(9,659)	(6,972)
III.	Income from variable-income securities	5.2	559	239	181
IV.	Fee and commission income	5.3	15	12	11
V.	Fee and commission expenses	5.3	(15)	(17)	(23)
VI. A.	Net gains (losses) on held-for-trading portfolio transactions	5.4	175	113	(386)
VI. B.	Net gains (losses) on available-for-sale portfolio transactions	5.4	(3,133)	1,051	(386)
VI. C.	Net gains (losses) on held-to-maturity portfolio transactions	5.4	0	(2)	0
VII.	Other banking income	5.8	6	6	4
VIII.	Other banking expenses	5.8	(4)	0	(1)
NET BANKING INCOME			**(2,343)**	**1,760**	**(909)**
IX.	General operating expenses	5.5	(322)	(196)	(204)
X.	Depreciation and amortisation on tangible and intangible assets		(26)	(28)	(25)
GROSS OPERATING INCOME			**(2,691)**	**1,536**	**(1,138)**
XI.	Cost of risk	5.6	(331)	(813)	(695)
OPERATING INCOME AFTER COST OF RISK			**(3,022)**	**723**	**(1,833)**
XII.	Net gains (losses) on long-term investments	5.7	(2,364)	66	(11)
INCOME BEFORE TAX			**(5,386)**	**789**	**(1,844)**
XIII.	Non-recurring items	5.9	0	0	0
XIV.	Corporate income tax	5.10	449	(90)	314
XV.	Net change in general banking risks reserve		0	0	0
NET INCOME			**(4,937)**	**699**	**(1,530)**
BASIC EARNINGS PER SHARE (EUR)			(56.71)	8.03	(17.58)
FULLY DILUTED EARNINGS PER SHARE (EUR)			(56.71)	8.03	(17.58)

Notes to the financial statements

1. Accounting policies and valuation methods

1.1. Significant events in 2010

Significant events in 2010 were:

- on 2 July 2010, the European Commission published its final decision, reached on 26 February 2010, approving the aid granted to Dexia by the States of Belgium, France and Luxembourg. This decision put an end to the in-depth enquiry staged by the European Commission. The European Commission confirmed Dexia's long-term viability, approved Dexia's restructuring plan and acknowledged its significant achievements;

- on 30 June 2010, Dexia fully exited the State liquidity guarantee mechanism originally put in place in October 2008. The exit process was conducted gradually, with Dexia waiving the benefit of the guarantee for contracts with a maturity of up to one month and contracts with no fixed maturity as early as October 2009.

  In accordance with the agreement with the European Commission, and given the improvement in the Group's liquidity position, it was agreed that Dexia would exit the guarantee mechanism four months earlier than the agreed initial 30 October 2010 deadline. Therefore, the Group undertook to no longer make use of the guarantee as from the end of May 2010 for all funding of under one year, and as from 30 June 2010 for all medium- and long-term funding.

  All outstanding instruments issued under the government guarantee mechanism prior to 30 June 2010 will continue to benefit from the government guarantee, in accordance with their terms and conditions. With regard to remuneration on this guarantee, Dexia Crédit Local and its branches recorded a charge of EUR 340 million in 2010 (EUR 251 million in 2009).

  In 2010, Dexia Crédit Local issued EUR 28 billion of medium- and long-term debt, including EUR 23 billion under the State guarantee mechanism, in anticipation of the exit from this mechanism;

- on 15 September 2010, Dexia's management presented to the European employee council additional reorganisation and cost-cutting measures as part of the transformation plan defined and initiated back in November 2008. This new phase of the cost savings plan prompted the Dexia Crédit Local Group to raise a provision for risks and charges in its 2010 accounts in order to cover the restructuring costs pertaining to the closure of the Tokyo and London branches for EUR 20.2 million and EUR 1 million respectively, and EUR 4.3 million for the US operations. In addition, manpower planning measures were implemented with the aim of avoiding layoffs;

- following a decision made by the Board of Directors at its 14 December 2010 meeting, Dexia Crédit Local increased its capital by means of a cash contribution of EUR 640 million, bringing the Bank's total capital stock to EUR 1,140 million. Dexia SA carried out this capital stock increase by converting an existing subordinated loan. In the light of the estimated losses for the year, the Board of Directors decided to reduce the Bank's capital stock by EUR 640 million. The capital stock thus remains unchanged at EUR 500,513,102.75, divided into 87,045,757 shares with a par value of EUR 5.75 per share;

- in accordance with the decision made by the European Commission, in recent months Dexia Crédit Local stepped up its programme to reduce its balance sheet. It sold a total of EUR 20 billion of non-strategic bonds and loans in 2010, with a negative effect of EUR 397 million on the income statement. Following the sale of FSA Holdings Ltd. in July 2009 and Crédit du Nord in December 2009, further participating interests, notably Dexia Épargne Pension, were sold in 2010;

- given the widening of spreads for sovereign and local authorities, impairment provisions of EUR 501 million were recorded in respect of the available-for-sale portfolios. These provisions must be taken in the context of the substantial reversals in 2009 amounting to EUR 1,447 million;

- the cost of risk reflects an additional charge of EUR 632 million, calculated based on the useful value of the subsidiary Dexia Holdings Inc., in which Dexia Crédit Local has a 90% stake. This subsidiary houses the remaining activities of FSA. The provision covers charges relating to the State guarantee granted in respect of the risks arising on the Financial products portfolio for the entire period of this guarantee: on the balance sheet, it comprises a EUR 1,233 million provision for risks and a EUR 373 million provision for impairment of the subordinated loan.

  Furthermore, on 30 December 2010, Dexia Crédit Local wrote off a EUR 109 million receivable due from its subsidiary Dexia Crédit Local Asia Pacific Pty Ltd.

1.2. Accounting policies and valuation methods used to present the financial statements

The balance sheet, income statement and off-balance sheet are presented in accordance with the standards applicable to banks.

The annual financial statements have been prepared in accordance with the principles and standards contained in European Council Directives governing the financial statements of banking institutions, in compliance with French Accounting Regulations Committee (CRC) Standards 99-04 and 00-03 as amended.

a. Changes in accounting policies and valuation methods applied to the annual financial statements

No changes have been made to the accounting policies and valuation methods applied to the annual financial statements.

b. Measurement of items in the balance sheet, off-balance sheet and income statement in the summary financial statements

The financial statements have been prepared in accordance with the rules of prudence, and fundamental accounting principles:

- on-going concern assumption;
- matching principle;
- consistency criterion.

Customer loans

Any loans approved but not yet disbursed are shown as off-balance sheet items.

Current and accrued interest on customer loans is recognised in banking income on an accrual basis, as is the interest on overdue payments. Interest on non-performing loans reported in net banking income is neutralised by the recognition of an equivalent amount of impairment.

Related fees and commissions received and incremental transaction costs on extending or acquiring credits, if significant, are spread over the effective life of the loan. Other fees received are recorded directly to income.

For both accounting and tax purposes, all early repayment penalties on loans recognised up to 31 December 2004 will continue to be amortised over the remaining life of the related loans in proportion to the outstanding interest that would have had to be paid. The balance of outstanding penalties to be amortised is classified under deferred income.

Since 1 January 2005, all early repayment penalties on loans are taken into income at the repayment date.

Customer loans are stated in the balance sheet net of provisions for possible losses. They are broken out into four separate categories: performing loans, restructured performing loans, non-performing loans under collection and doubtful non-performing loans.

Non-performing loans are considered to be doubtful as soon as it becomes apparent that they will probably or certainly not be repaid. Non-performing loans are defined as follows: local authority loans with instalments that are more than nine months overdue; real estate loans with instalments that are more than six months overdue; and other loans with instalments that are more than three months overdue. Loans to borrowers that have been subject to formal alert procedures or filed for bankruptcy are classified as loans under collection, this category being analysed in the notes to the financial statements in the same way as non-performing loans.

Impairment on non-performing loans is computed on the basis of the estimated loss exposure. Interest is written down in full.

Non-performing loans are considered to be doubtful as soon as their repayment becomes highly uncertain and it becomes apparent that they will eventually be written off.

Non-performing loans are downgraded from "under collection" to "doubtful" either one year at the latest after becoming non-performing, or immediately if the loan had previously been classified as a restructured performing loan. The interest on these loans is no longer included in net interest income once they have been classified as doubtful non-performing.

Loans that have been restructured under non-market conditions are included in the second category until their final maturity. They are written down for impairment in an amount equal to the present value of the future interest payments gap. This write-down is taken immediately into expense under the cost of risk, and is reversed into income on an accrual basis over the remaining term of the loan.

Securities transactions

The securities held by Dexia Crédit Local are recorded on the balance sheet under the following asset headings:

- government securities eligible for central bank refinancing;
- bonds and other fixed-income securities;
- equities and other variable-income securities.

In accordance with French Banking Regulatory Committee (CRB) Regulation 2005-01 that amended CRB Regulation 90-01, they are broken out in the notes to the financial statements into "Held-for-trading securities", "Available-for-sale securities" and "Held-to-maturity securities".

Held-for-trading securities

Held-for-trading securities are securities traded on a liquid market that are purchased or sold with the intention of being sold or repurchased within a short period of time. The Dexia Crédit Local held-for-trading portfolio consists primarily of adjustable-rate bonds. Held-for-trading securities are taken to the balance sheet at cost, including accrued interest and excluding acquisition costs. At each period end, they are marked to market and the resulting unrealised gain or loss is taken to the income statement.

Available-for-sale securities

These consist of securities that are not recognised as held-for-trading securities, held-to-maturity securities, portfolio securities, other long-term investments, investments in associates or investments in related parties.

The portfolio consists primarily of fixed and adjustable-rate bonds but also includes some variable-income securities. Fixed-rate bonds are generally hedged against interest rate risk by means of interest rate and/or currency swaps classified as hedges. The use of this technique has the effect of creating synthetic adjustable or variable-rate assets that are immunised against interest rate risk.

Available-for-sale securities are taken to the balance sheet at cost, excluding acquisition costs and accrued interest, which are recorded separately. Any premiums or discounts, corresponding to the difference between the acquisition cost and redemption price, are recorded on the balance sheet and amortised to the income statement on a quasi-yield-to-maturity basis over the remaining life of the securities. This method is applied to all securities in the portfolio.

At closing, in application of the prudence principle, available-for-sale securities are recorded on the balance sheet at the lower of their acquisition cost and their selling price at closing, after taking into account gains on micro-hedging transactions for purposes of calculating the reduction in their value.

If no active market is available for a given financial instrument, valuation techniques are used to calculate the realisable value (or the market value, as defined elsewhere in the notes) of the instrument. The valuation model must factor in all of the parameters considered by market players when measuring the value of the asset. In such cases, Dexia Crédit Local uses its own valuation models, taking account of market conditions at the date of the valuation as well as of any changes in the credit risk quality of these financial instruments and market liquidity.

If the potential decrease in the value of the securities exceeds the related unrealised hedging gain, a provision corresponding to the difference is deducted from the securities' carrying amount. A reserve is booked on the liabilities side of the balance sheet for any unrealised hedging losses that are not offset by an increase in the market value of the hedged securities.

Gains and losses on disposals of marketable available-for-sale securities are calculated on a FIFO basis.

Any available-for-sale securities transferred to the held-to-maturity portfolio are transferred at cost.

Any provisions for impairment that are no longer required at the date of transfer are released to the income statement over the remaining life of the securities.

Held-to-maturity securities

Held-to-maturity securities consist of fixed-income securities with fixed maturities that have been acquired or transferred from "available-for-sale securities" and "held-for-trading securities" with the explicit intention of being held to maturity.

They are either financed with back-to-back resources or hedged in order to neutralise the effect of interest rate fluctuations on earnings. The hedging instruments used consist solely of interest rate and/or currency swaps.

The use of these specific, allocated hedges has the effect of creating synthetic adjustable- or variable-rate assets that are immunised against interest rate risk.

Held-to-maturity securities are stated at cost, excluding acquisition costs and accrued interest at the date of acquisition, which are recorded separately. Premiums and discounts, representing the difference between the cost of the securities, excluding accrued interest, and the redemption price, are amortised on a yield-to-maturity basis over the remaining life of the securities.

Unrealised gains are not recognised and no provisions are booked for unrealised losses at the balance sheet date except in cases where:

- the ability of the issuer to honour its repayment obligations appears uncertain; or
- it is probable that the securities will not be held to maturity due to a change in circumstances.

Should a material proportion of all held-to-maturity securities be sold or transferred to another portfolio category for an amount that is material relative to the total value of all held-to-maturity securities, Dexia Crédit Local would no longer be authorised to classify any securities previously or subsequently acquired as held-to-maturity until the third following full fiscal year, unless said sale or transfer does not call into question the Bank's intention of maintaining its other held-to-maturity securities until their actual maturity (e.g. sale of one particular held-to-maturity security whose issuer's credit quality has deteriorated significantly, or in the case of held-for-trading or available-for-sale securities that were previously transferred into held-to-maturity under extraordinary market conditions that required a change of strategy and which may once more be traded on an active market). All previously acquired held-to-maturity securities are reclassified as "available-for-sale securities" at their carrying amount at the same time that the other securities are reclassified.

Portfolio securities

This category includes variable-income securities purchased on a regular basis with the intention of selling them at a profit in the medium term. At the time of purchase, the Company has no intention of investing in the long-term development of the issuer's business or of actively participating in its day-to-day management.

Portfolio securities are taken to the balance sheet at cost excluding acquisition costs. At each period end, they are stated at the lower of historical cost and fair value to the Group. Fair value is determined based on a range of criteria, including the issuer's outlook and the length of the estimated holding period. For listed securities, fair value is the average market price determined over a sufficiently long period in view of the estimated holding period to eliminate the impact of any wide swings in market prices. At each period end, and for each line of securities, if the fair value represents less than carrying amount, a provision is booked for the unrealised loss. For the purpose of determining the provision, unrealised losses are not netted against unrealised gains, which are not recognised.

Gains and losses on disposals of portfolio securities are determined on a FIFO basis.

Sale and repurchase agreements and lending of securities

Securities may be sold under repurchase agreements, lent or borrowed for the purpose of reducing Dexia Crédit Local's short-term liquidity cost. The securities may or may not be physically delivered to the buyer.

When securities are sold under a repurchase agreement, a debt corresponding to the value of the repurchase commitment is recognised on the balance sheet. The interest paid on the funds received is recognised in the income statement on an accrual basis.

Gains and losses on repurchase agreements are calculated using the same method as for outright sales, depending on the portfolio from which the securities were taken.

Transactions involving the simultaneous cash sale and forward purchase of the same securities are accounted for in the same way as repurchase agreements. The cash held in connection with repurchase agreements is periodically adjusted to take account of changes in the market value of the securities during the term of the contract, so as to reduce the credit risk incurred by the buyer as a result of any impairment in value of the collateral represented by the securities.

Loaned securities are reclassified as receivables for an amount equal to the carrying amount of the loaned securities. At each balance sheet date, the receivable is re-measured using the valuation principles applicable to the securities that have been loaned.

Borrowed securities are recorded as held-for-trading securities, with a contra entry to a liability to the lender. At each balance sheet date, the borrowed securities and the corresponding liability are re-measured using the valuation principles applicable to held-for-trading securities.

Long-term investments

Investments in associates

Investments in associates represent investments that are intended to be useful to the Group's activities over the long term. They are intended to:

- be held on a long-term basis to exercise influence or control over the issuer; or
- underpin banking relations with the company concerned.

They are stated at cost excluding any related acquisition costs. At the balance sheet date, these shares are measured at the lower of cost and value in use, i.e. the fair value based on the utility of the investment to Dexia Crédit Local.

In the case of companies whose net assets are at least equal to their value when the last shares were acquired, with prior-year positive earnings or an outlook for genuine recovery in the current year, value in use to the Group is considered as being at least equal to the historical cost of the investment. In all other cases, a range of criteria are applied to determine the possible need to record a provision for impairment in value in accordance with the prudence principle.

In accordance with CRB Regulation 89-01, differences arising on translation at the year-end rate of investments denominated in foreign currencies that are financed in euros are taken to equity, under "Accumulated translation adjustments", and not to the income statement.

In the event of disposal of part of the Group's interest in an associate, the resulting gain or loss is determined on a FIFO basis.

Other long-term investments

This category comprises variable-income securities acquired with the aim of developing long-term business ties with the issuer, although Dexia Crédit Local is not in a position to influence the management of the issuer due to the small proportion of voting rights held. Other long-term securities are taken to the balance sheet at cost, excluding acquisition costs. At each period end, they are stated at the lower of historical cost and fair value. The fair value of other long-term securities corresponds to the price that the Company would be willing to pay to acquire them, taking into account the purpose for which they are acquired, irrespective of whether or not the securities are listed. Gains and losses on disposals of other long-term securities are determined on a FIFO basis.

Non-current assets

These assets are stated at cost and depreciated or amortised using the straight-line method over their estimated useful life, at the rate at which their future economic benefits are consumed. Unless otherwise stated, furniture and fixtures are depreciated over ten years and office equipment generally over five years. Software is amortised over three to five years.

Other assets

This heading includes mainly collateral (guarantee deposits) receivable under swap transactions, which is recognised at its carrying amount.

Debt securities

Debt securities include bonds and negotiable debt securities.

Bonds

Bonds are recorded at face value. All related accrued interest is computed at contractual rates and recorded under interest expense.

Zero-coupon bonds are recorded at their issue price. At each period end, accrued interest for the period, computed on the basis of the yield to maturity announced at the time of issue, is charged to the income statement as expenses on debt securities and an equivalent amount is added to the debt on the liabilities side of the balance sheet until the maturity date so as to gradually increase the carrying amount of the debt to the amount repayable at maturity.

Bond issuance costs are deferred and amortised on a straight-line basis over the life of the bonds. Since 1 January 2005, premiums paid or received on bonds acquired by Dexia Crédit Local are recognised directly through profit or loss.

Bonds denominated in foreign currencies are accounted for in the same way as foreign currency transactions.

Negotiable debt securities

Negotiable debt securities are stated at face value. Interest on medium-term notes, BMTN (domestic short- or medium-term notes) and negotiable certificates of deposit is recorded under "Interest expense" on an accrual basis. Prepaid interest on commercial paper is recorded under "Accrued assets" on the transaction date and amortised over the residual life of the paper.

Discounts and premiums on debt securities

Bond discounts and premiums and redemption premiums are amortised on a straight-line basis over the remaining life of the bonds from the date of acquisition. They are recorded on the consolidated balance sheet under the relevant liabilities accounts. Amortisation is taken to the income statement under "Interest expense on bonds and other fixed-income securities".

Other liabilities

This heading includes mainly collateral (guarantee deposits) payable under swap transactions, which is recognised at its carrying amount.

Reserves

Provisions for risks and charges are set aside at their present value when:

- Dexia Crédit Local has a legal or implicit obligation resulting from past events;
- it is probable that an outflow of financial resources will be needed to extinguish this obligation; and
- it is possible to estimate with reasonable precision the amount of the obligation.

General (or collective) provisions on customer loans are included in this heading. These provisions cover the risk of impairment in the absence of any signs of specific impairment but when there are objective indications that losses will probably be incurred in certain sectors of the portfolio or on other financing commitments underway at the balance sheet date. These potential losses are estimated on the basis of the historical loss record and trends specific to each sector, while taking account of the general economic environment in which the borrower operates. To calculate these reserves, Dexia Crédit Local has created a credit risk model based on an approach including probabilities of default and of losses given default.

Regulatory tax reserves are set aside in the financial statements for medium- and long-term credits and accelerated tax depreciation. Reserves against forward and derivative financial instruments are booked in accordance with the rules specified in the paragraph concerning forward and derivative financial instruments.

Retirement and other post-employment benefits are calculated in accordance with the local regulations applicable in each country and are recognised as expenses for the year. These commitments are recalculated each year using an actuarial method and recognised under reserves.

These reserves also include provisions for deferred taxes.

Subordinated debt

Subordinated redeemable notes issued by Dexia Crédit Local are considered as Tier 2 capital for the purpose of calculating the European capital adequacy ratio, in accordance with CRB Regulation 90-02 (Article 4-d).

Forward and derivative financial instruments

Dexia Crédit Local uses forward and derivative financial instruments in the normal course of business, mainly as hedges against interest rate and currency risks and, to a lesser extent, in order to take advantage of favourable interest rate and currency trends. The instruments used include interest rate and/or currency swaps, FRAs, caps, floors, interest rate options, futures, credit default swaps and credit spread options.

Forward and derivative financial instruments are valued and accounted for in four transaction categories, in accordance with CRB Regulations 90-15 and 92-04 based on the initial purpose of the transaction.

The four transaction categories are specific hedges, macro-hedges, isolated open positions and specialist portfolio management; each has its own rules for measurement and recognition.

For transactions in all categories, the commitment or notional amount is recorded as an off-balance sheet commitment over the life of the contract, i.e. from the date of signing of the contract to its maturity or the start date of the reference period in the case of forward rate agreements. The amount of the commitment is adjusted to reflect any changes in notional amounts, so as to show at all times the maximum current or future commitment. Each contract is recorded separately and is classified in one of the above four categories. The accounting treatment of gains and losses depends on the underlying purpose of the transaction, as determined by its category.

Upfront equalisation payments on hedging transactions are amortised over the remaining life of the instrument. All transactions are amortised on a quasi-yield-to-maturity basis.

Hedging transactions

Micro hedging

Micro-hedges are used to cover interest rate risks on a specific item or group of items with similar characteristics, identified at the outset. The criteria applied to determine whether transactions qualify as micro-hedges are as follows:

- the hedged item must contribute to the Bank's overall exposure to fluctuations in prices or interest rates;
- the contracts must be purchased or sold for the specific purpose, and must have the specific effect, of reducing the Bank's exposure to fluctuations in prices or interest rates in respect of the hedged item and must be identified as such at the outset.

Instruments meeting this definition consist primarily of swaps acquired as micro-hedges of primary issues, bonds held in the "available-for-sale" and "held-to-maturity" portfolios and customer loans. The hedging instruments have the effect of creating synthetic variable- or adjustable-rate assets or liabilities, which are immunised against interest rate risk.

Expenses and income on micro-hedges are recorded in the income statement in the same way as the expenses and income on the hedged item of group of similar items.

In cases where the hedged item is repaid early (or disposed of), the following accounting treatment is applied to the equalisation payment received or paid due to the early unwinding of the hedging instrument:

- if the hedge was unwound before 1 January 2005, the equalisation payment is spread over the remaining life of the cancelled transaction;
- if the hedge was unwound on or after 1 January 2005, the equalisation payment is recognised in profit or loss during the period in which the hedge was unwound. However, the equalisation payment paid by Dexia Crédit Local is charged against income only for the portion that exceeds gains not yet recorded in income on the symmetric position.

In both cases, the inventory of deferred equalisation payments is recorded in accrued assets or liabilities.

Macro hedging

This category includes contracts that are intended to hedge and manage Dexia Crédit Local's overall exposure to interest rate risks on assets, liabilities and off-balance sheet items, other than micro-hedges, contracts representing isolated open positions and contracts acquired for specialist portfolio management purposes.

Macro-hedges have the effect of reducing Dexia Crédit Local's overall exposure to interest rate risks on its business transactions.

Expenses and income on macro-hedges are recorded in the income statement on an accrual basis under "Interest expense on macro-hedges" and "Interest income on macro-hedges". The contra entry is recorded on the balance sheet in an accruals account until such time as the funds are collected or disbursed.

In the event of the unwinding of a macro-hedge, the equalisation payment is recognised as follows:

- equalisation payments on swaps unwound before 1 January 2005 are amortised when the unwinding of the position is not linked to a prior change in the overall interest rate risk to be hedged, or are taken into income symmetrically to those components that resulted in the modification of said risk.
- as from 1 January 2005, the equalisation payment is recognised through profit or loss.

Position management

Dexia Crédit Local conducts two types of position management transactions:

- specialist held-for-trading portfolio management;
- position-taking.

Specialist held-for-trading portfolio management

This activity covers transactions with local authorities and their symmetrical transactions entered into with banks. Its purpose is the specialist management of a held-for-trading portfolio comprising specific interest rate swaps and other interest rate-based derivatives. The portfolio is actively managed based on sensitivity criteria, with predefined interest rate exposure limits set internally in accordance with CRB Regulation 97-02 as amended. Positions are centralised and results calculated on a daily basis.

Gains and losses are recognised on a mark-to-market basis, as follows:

- total future cash flows are marked to market on a monthly basis and the resulting unrealised gain or loss is taken to the income statement;
- all payments made or received are recorded directly in the income statement.

Mark-to-market gains and losses on derivatives are calculated using the replacement cost method. This method consists of taking each individual contract and simulating a new contract, which, at the closing date, closes the open position created by the original contract. The differences in cash flows between the actual and simulated contracts are then discounted.

The portfolio valuation takes into account portfolio management costs and credit risks.

For the purposes of this activity, the Dexia Crédit Local New York Branch centrally manages the risks generated by the portfolios. Risk is transferred using internal contracts. These contracts are put in place, recorded and valued in accordance with CRB Regulation 90-15.

Position-taking

Derivatives held in the position-taking portfolio are intended to keep isolated positions open in order to take advantage of any favourable interest rate movements. The portfolio also includes all contracts (including credit derivatives) that do not fulfil the criteria for classification as specialist portfolio management.

Gains and losses are recognised in accordance with the prudence principle as follows:

- provisions for risks are booked for any unrealised losses calculated as a result of periodic mark-to-market valuations; unrealised gains are not recognised in the income statement;
- interest and equalisation payments are recognised in the income statement on an accrual basis.

Foreign exchange transactions

Dexia Crédit Local uses currency swaps and forward purchases and sales of foreign currencies to hedge its currency risks. Currency swaps are used to match funding currencies with the currencies of the assets financed. Forward purchases and sales of foreign currencies are used to offset or reduce the impact of exchange rate fluctuations on specific items or groups of similar items. A limited number of unhedged foreign exchange positions are also established in connection with Dexia Crédit Local's position-taking activities.

In accordance with CRB Regulation 89-01, currency instruments are classified as either hedged transactions or position-management transactions. This categorisation determines the applicable accounting treatment for the related gains and losses.

Currency instruments in both categories are recorded as off-balance sheet commitments over the life of the contract, i.e. from the date of signing of the contract to the start date of the reference period.

Each contract is recorded separately and is classified in one of the categories defined by the regulation. The accounting treatment of income depends on the category and reflects the substance of the transaction.

Hedging transactions

Forward points – the difference between the forward rate and the spot rate – are recognised in the income statement on an accrual basis. The position is initially recorded at the spot rate and its value is gradually adjusted over the life of the contract to take account of the forward points.

Position-management transactions

These represent forward currency transactions that do not meet the criteria for qualification as hedged forward currency transactions as defined in CRB Regulation 89-01, in that they do not relate simultaneously to loans and borrowings or to spot currency transactions. Such transactions are entered into with the aim of taking advantage of exchange rate movements.

Gains and losses on position-management transactions are determined and accounted for by translating movements in the currency accounts into euros at the forward rate applicable to the remaining terms of the contracts.

Foreign currency transactions

In accordance with CRB Regulation 89-01, as amended by Regulation 90-01, Dexia Crédit Local recognises foreign currency transactions in accounts opened and denominated in each of the currencies concerned.

Specific foreign currency position accounts are maintained in each currency showing the position in that currency and the euro equivalent.

At each period end, the difference between the value of the foreign currency position account translated into euro at the year-end spot rate and the value of the foreign currency position in the euro equivalent account is taken to the income statement. Differences arising on the translation into euro of investments in foreign currency-denominated non-consolidated companies financed in euros are recorded on the balance sheet under "Accumulated translation adjustments".

Differences arising on the translation into euros of held-to-maturity securities denominated and financed in foreign currencies are recognised on a symmetrical basis with the differences arising on translation of the related financing.

The balance sheets of foreign consolidated branches of Dexia Crédit Local are translated into euros at the period-end exchange rate, with the exception of equity, which is translated at the historical rate. Income statement items are translated at the average rate for the period. Differences arising on translation are recorded as a separate component of equity under "Accumulated translation adjustments".

Cost of risk

The cost of risk includes movements in loss reserves on interbank and customer loans, fixed-income held-to-maturity securities (in the case of recognised risk of default by the issuer) and off-balance sheet items (other than off-balance sheet derivatives), as well as loan losses, recoveries of loans written off in prior years, and movements in other provisions and reserves for credit risks and contingencies relating to these items.

Non-recurring items

Non-recurring income and expenses result from events or transactions that do not relate to the ordinary business operations or routine management of the Company's assets and liabilities.

They represent material items of income and expense that do not depend on decisions made in connection with the routine management of the business or of the Company's assets and liabilities, but which result from external events that are exceptional in terms of their infrequency and their impact on net income. Only items of this nature, that have a significant impact on profit and loss for the period, are classified as non-recurring income and expenses.

Corporate income tax

The standard French corporate income tax rate for both current and deferred taxes is 34.43%.

The income of foreign subsidiaries is taxed at the rates prevailing in the countries in which they operate.

Tax consolidation

Dexia Crédit Local has adopted the tax consolidation method.

Dexia SA Établissement Stable in France became head of the tax consolidation group that includes Dexia Crédit Local on 1 January 2002.

The Établissement Stable alone is liable for the payment of corporate income taxes and the annual fixed taxes paid each year by the Group as a whole. In its individual financial statements, Dexia Crédit Local recognises its income tax expense on a stand-alone basis.

Dexia SA Établissement Stable records the benefits achieved through tax consolidation.

Locations and activities in tax haven countries and territories

In compliance with Article L. 511-45 of the French Monetary and Financial Code, it should be noted that Dexia Crédit Local has no offices (branches, subsidiaries or special purpose entities), affiliates or other exclusively or jointly controlled de facto or de jure interests in entities in countries that do not have administrative assistance agreements with France.

Company consolidating the financial statements of Dexia Crédit Local

Dexia SA, Place Rogier, 11 B-1210 Brussels, Belgium.

2. Notes on the assets

2.1. Cash, central banks and postal checking accounts (item I - assets)

a. Accrued interest

(EUR millions)	0

b. Detailed analysis, excluding accrued interest

(EUR millions)	As at 31 December 2009	As at 31 December 2010
Cash	0	0
Deposits with central banks and issuing institutions	238	131
Deposits with postal checking accounts	0	0
TOTAL	**238**	**131**

2.2. Government securities eligible for central bank refinancing (item II - assets)

This item includes government securities eligible for central bank refinancing.

a. Accrued interest

(EUR millions)	62

b. Analysis by term to maturity, excluding accrued interest

(EUR millions)	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	As at 31 December 2010
	0	44	85	2,363	2,492

c. Analysis by type of portfolio and movements for the year, excluding accrued interest

	Banking activity and other			Total
(EUR millions)	Held for trading	Available for sale	Held to maturity	
Cost as at 31 December 2009	47	3,178	40	3,265
Movements for the year:				
• acquisitions	0	60	0	60
• disposals and redemptions	0	(705)	0	(705)
• transfers	0	0	0	0
• translation adjustments	0	2	0	2
• other movements	0	0	0	0
Cost as at 31 December 2010	**47**	**2,535**	**40**	**2,622**
Impairment as at 31 December 2009	0	(110)	0	(110)
Movements for the year:				
• charges	0	(20)	0	(20)
• recoveries	0	0	0	0
• translation adjustments	0	0	0	0
• other movements	0	0	0	0
Impairment as at 31 December 2010	**0**	**(130)**	**0**	**(130)**
NET CARRYING AMOUNT AS AT 31 DECEMBER 2010	**47**	**2,405**	**40**	**2,492**

As at 31 December 2010, there were EUR 111 million in securities lent in the available-for-sale portfolio and EUR 40 million in the held-to-maturity portfolio.

d. Transfers between portfolios

No transfers were made between portfolios in 2010.

e. Listed and unlisted securities, excluding accrued interest

(EUR millions)	Carrying amount as at 31 December 2010	Market value as at 31 December 2010	Net unrealised capital gain as at 31 December 2010
Listed securities[1]	2,488	2,569	81
Unlisted securities	4		
TOTAL	**2,492**		

(1) "Listed" means quoted on a securities exchange.

Analysis by type of portfolio	Total	Held for trading	Available for sale	Held to maturity
Listed securities[1]	2,488	47	2,401	40
Unlisted securities	4	0	4	0
TOTAL	**2,492**	**47**	**2,405**	**40**

(1) "Listed" means quoted on a securities exchange.

f. Unrealised capital gains and losses on securities

(EUR millions)	Available for sale	Held to maturity
Unrealised capital gains	81	0
Unrealised capital losses	0	0

2.3. Interbank loans and advances (item III - assets)

a. Accrued interest

(EUR millions)	59

b. Analysis by term to maturity, excluding accrued interest

(EUR millions)	As at 31 December 2009	As at 31 December 2010	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Demand loans and advances	14,268	14,549	13,735	2	20	792
Term loans and advances	27,208	24,094	11,065	1,572	6,485	4,972
TOTAL	**41,476**	**38,643**	**24,800**	**1,574**	**6,505**	**5,764**

c. Analysis of non-performing loans, excluding accrued interest

Valuation of risk	As at 31 December 2009	As at 31 December 2010		
(EUR millions)	Total	Non-performing loans under collection	Doubtful non-performing loans	Total
Gross non-performing loans	57	57	0	57
Accumulated impairment[1]	(37)	(37)	0	(37)
NET NON-PERFORMING LOANS	**20**	**20**	**0**	**20**

(1) This amount corresponds essentially to the impairment of amounts receivable from Lehman Brothers Holding Inc.

d. Analysis of term loans by degree of subordination, excluding accrued interest

(EUR millions)	As at 31 December 2009	As at 31 December 2010
Subordinated interbank loans	1,078	1,117
Non-subordinated interbank loans	26,130	22,977
TOTAL	**27,208**	**24,094**

e. Analysis of subordinated non-performing loans, excluding accrued interest

Valuation of risk	As at 31 December 2009	As at 31 December 2010		
(EUR millions)	Total	Non-performing loans under collection	Doubtful non-performing loans	Total
Gross non-performing loans	347	373	0	373
Accumulated impairment[1]	(347)	(373)	0	(373)
NET NON-PERFORMING LOANS	**0**	**0**	**0**	**0**

(1) This amount corresponds to the impairment of amounts receivable from Dexia Holdings Inc.

2.4. Customer loans and advances (item IV - assets)

a. Accrued interest

(EUR millions)	305

b. Analysis by term to maturity, excluding accrued interest

(EUR millions)	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity or not analysed	As at 31 December 2010
	330	1,888	11,886	30,382	0	44,486

c. Analysis by type of borrower, excluding accrued interest

	As at 31 December 2009	As at 31 December 2010		
(EUR millions)	Total	Public sector	Other sectors	Total
Performing loans	48,704	18,883	25,281	44,164
Restructured performing loans	0	0	0	0
Non-performing loans under collection	14	2	45	47
Doubtful non-performing loans	168	36	239	275
TOTAL	**48,886**	**18,921**	**25,565**	**44,486**

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d. Analysis of non-performing loans, excluding accrued interest

Valuation of risk (EUR millions)	As at 31 December 2009	As at 31 December 2010
Gross non-performing loans under collection	20	61
Accumulated impairment	(6)	(14)
Net non-performing loans under collection	**14**	**47**
Gross doubtful non-performing loans	220	360
Accumulated impairment	(52)	(85)
Net doubtful non-performing loans	**168**	**275**

e. Analysis of term loans by degree of subordination, excluding accrued interest

(EUR millions)	As at 31 December 2009	As at 31 December 2010
Subordinated customer loans	10	7
Non-subordinated customer loans	48,876	44,479
TOTAL	**48,886**	**44,486**

2.5. Bonds and other fixed-income securities (item V - assets)

a. Accrued interest

(EUR millions)	483

b. Analysis by term to maturity, excluding accrued interest

(EUR millions)	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	As at 31 December 2010
	7,239	1,593	14,709	29,740	53,281

c. Analysis by type of issuer, excluding accrued interest

(EUR millions)	As at 31 December 2009	As at 31 December 2010
Public sector issuers	18,847	17,581
Other issuers	40,683	35,700
TOTAL	**59,530**	**53,281**

The decrease in the securities portfolio is attributable to the policy of reducing the liquidity gap.

d. Listed and unlisted securities, excluding accrued interest

(EUR millions)	Carrying amount as at 31 December 2010	Market value as at 31 December 2010	Net unrealised capital loss as 31 December 2010
Listed securities(1)	28,505	27,305	(1,200)
Unlisted securities	24,776		
TOTAL	**53,281**		

(1) "Listed" means quoted on a securities exchange.

Analysis by type of portfolio	Total	Held for trading	Available for sale	Held to maturity
Listed securities(1)	28,505	7,164	21,316	25
Unlisted securities	24,776	4,617	19,567	592
TOTAL	**53,281**	**11,781**	**40,883**	**617**

(1) "Listed" means quoted on a securities exchange.

e. Analysis by type of portfolio and movements for the year, excluding accrued interest

(EUR millions)	Banking business and other			Total
	Held for trading	Available for sale	Held to maturity	
Cost as at 31 December 2009	8,049	52,578	697	61,324
Movements for the year:				
• acquisitions	3,635	6,623	90	10,348
• disposals and redemptions	(781)	(19,710)	(184)	(20,675)
• other changes	575	0	0	575
• translation adjustments	303	3,243	14	3,560
Cost as at 31 December 2010	**11,781**	**42,734**	**617**	**55,132**
Impairment as at 31 December 2009	0	(1,794)	0	(1,794)
Movements for the year:				
• charges(1)	0	(175)	0	(175)
• recoveries	0	232	0	232
• other changes	0	0	0	0
• translation adjustments	0	(114)	0	(114)
Impairment as at 31 December 2010	**0**	**(1,851)**	**0**	**(1,851)**
NET CARRYING AMOUNT AS AT 31 DECEMBER 2010	**11,781**	**40,883**	**617**	**53,281**

(1) An explanation regarding the change is provided in note 5.4.

As at 31 December 2010, the total value of securities lent amounted to EUR 1,343 million in the held-for-trading portfolio, EUR 27,799 million in the available-for-sale portfolio and EUR 96 million in the held-to-maturity portfolio.

f. Analysis by degree of subordination, excluding accrued interest

(EUR millions)	As at 31 December 2009	As at 31 December 2010
Subordinated bonds and other subordinated fixed-income securities issued by credit institutions	679	493
Subordinated bonds and other subordinated fixed-income securities issued by other companies	0	0
Non-subordinated bonds and other non-subordinated fixed-income securities	58,851	52,788
TOTAL	**59,530**	**53,281**
of which: listed subordinated bonds and other listed subordinated fixed-income securities	*0*	*0*

g. Transfers between portfolios

No transfers were made between portfolios in 2010.

h. Held-for-trading portfolio, excluding accrued interest

(EUR millions)	As at 31 December 2009	As at 31 December 2010
Mark-to-market gains	261	(12)

i. Available-for-sale and held-to-maturity portfolios, excluding accrued interest

(EUR millions)	As at 31 December 2009	As at 31 December 2010
Unrealised gains (redemption value higher than carrying amount)	715	690
Unrealised losses (redemption value lower than carrying amount)	452	425

j. Analysis of non-performing loans, excluding accrued interest

Valuation of Risk (EUR millions)	As at 31 December 2009	As at 31 December 2010
Gross non-performing loans	164	241
Accumulated impairment(1)	(148)	(138)
NET NON-PERFORMING LOANS	**16**	**103**

(1) Impairment relates essentially to provisions made against securities issued by Lehman Brothers Holding Inc. and by Icelandic banks.

2.6. Equities and other variable-income securities (item VI - assets)

a. Analysis by type of portfolio and movements for the year

(EUR millions)	Banking activity and other		Total
	Held for trading	Available for sale	
Cost as at 31 December 2009	0	339	339
Movements for the year:			
• acquisitions	0	14	14
• disposals and redemptions	0	(30)	(30)
• other movements	0	0	0
• translation adjustments	0	9	9
Cost as at 31 December 2010	**0**	**332**	**332**
Impairment as at 31 December 2009	0	(58)	(58)
Movements for the year:			
• charges	0	(3)	(3)
• recoveries	0	8	8
• other movements	0	0	0
• translation adjustments	0	(1)	(1)
Impairment as at 31 December 2010	**0**	**(54)**	**(54)**
NET CARRYING AMOUNT AS AT 31 DECEMBER 2010	**0**	**278**	**278**

b. Transfers between portfolios (excluding insurance business)

No transfers were made between portfolios in 2010.

c. Listed and unlisted securities

(EUR millions)	Carrying amount as at 31 December 2010	Market value as at 31 December 2010	Net unrealised capital gain as at 31 December 2010
Listed securities	98	106	8
Unlisted securities	180		
TOTAL	**278**		

d. Unrealised capital gains on variable-income securities

(EUR millions)	Available-for-sale securities
Unrealised capital gains	42
Unrealised capital losses	0

2.7. Long-term equity investments (item VII - assets)

a. Accrued interest

(EUR millions)	0

b. Analysis by type of issuer and movements for the year

(EUR millions)	Dexia Group related parties		Other long-term equity investments		Total
	Credit institutions	Other	Credit institutions	Other	
Cost as at 31 December 2009	4,586	203	50	30	4,869
Movements for the year:					
• acquisitions[1]	335	0	0	1	336
• disposals and redemptions[2]	0	0	(39)	(4)	(43)
• transfers	0	0	0	0	0
• translation adjustments[3]	70	0	1	0	71
• other movements	0	0	0	0	0
Cost as at 31 December 2010	**4,991**	**203**	**12**	**27**	**5,233**
Impairment as at 31 December 2009	(2,178)	(1)	(34)	(6)	(2,219)
Movements for the year:					
• charges	(13)	0	(1)	0	(14)
• recoveries[4]	0	0	35	0	35
• reversals	0	0	0	0	0
• transfers	0	(4)	0	4	0
• translation adjustments[3]	(70)	0	0	0	(70)
• other movements	0	0	0	0	0
Impairment as at 31 December 2010	**(2,261)**	**(5)**	**0**	**(2)**	**(2,268)**
NET CARRYING AMOUNT AS AT 31 DECEMBER 2010	**2,730**	**198**	**12**	**25**	**2,965**

(1) The primary acquisitions in 2010 pertain to capital increases in Dexia Kommunalbank Deutschland, Dexia Municipal Agency and Dexia Bail.
(2) The disposals primarily concern the Dexia Epargne Pension, Dexia Finance and Dexia Assureco shares.
(3) The translation adjustments pertain to the Dexia Holdings Inc. subsidiary.
(4) The write-back of impairment corresponds to the sale of Dexia Epargne Pension.

c. Listed and unlisted securities

(EUR millions)	Net carrying amount as at 31 December 2010	Market value as at 31 December 2010	Unrealised capital gain as at 31 December 2010
Listed securities	0	0	0
Unlisted securities	2,965		
TOTAL	**2,965**		

d. Significant investments

(EUR millions)	Gross carrying amount as at 31 December 2010	Impairment as at 31 December 2010	Net carrying amount as at 31 December 2010
Listed securities	0	0	0

Unlisted securities	Gross carrying amount as at 31 December 2010	Impairment as at 31 December 2010	Net carrying amount as at 31 December 2010	% interest in equity	Interest in equity as at 31 December 2010	Last balance sheet date
TOTAL	**5,233**	**2,268**	**2,965**			
Principal interests in long-term equity investments						
Dexia Holdings Inc.[(1)]	2,188	2,188	0	90.00	(173)	31/12/2010
Dexia Municipal Agency	1,190	0	1,190	100.00	1,357	31/12/2010
Dexia Crediop	581	0	581	70.00	766	31/12/2010
Dexia Kommunalbank Deutschland	493	0	493	100.00	532	31/12/2010
Dexia Kommunalkredit Bank	160	0	160	100.00	224	31/12/2010
Dexia Sabadell, SA	142	0	142	60.00	276	31/12/2010
CBX.IA 2	100	0	100	70.85	77	31/12/2010
Dexia Israel Bank Ltd	56	0	56	65.31	61	31/12/2010
Dexia Sofaxis	50	0	50	99.98	56	31/12/2010
Dexia Crédit Local Asia Pacific Pty Ltd	41	41	0	100.00	(23)	31/12/2010
CBX.IA 1	40	0	40	100.00	1	31/12/2010
Dexia Flobail	39	0	39	100.00	(97)	31/12/2010
CLF Immobilier	34	18	16	100.00	17	31/12/2010
Dexia CLF Banque	20	0	20	100.00	24	31/12/2010
Exterimmo	20	0	20	40.00	20	31/12/2010
Société d'Investissement Suisse Luxembourgeoise	17	13	4	100.00	4	31/12/2010
Dexia Bail	10	0	10	99.91	6	31/12/2010
Dexia CLF Régions Bail	8	0	8	100.00	19	31/12/2010

(1) Total write-down of Dexia Holdings Inc. shares in light of the agreement to sell FSA's insurance business to Assured Guaranty Ltd.

2.8. Intangible assets (item VIII - assets)

Detailed analysis and movements for the year

(EUR millions)	Start-up costs	Other intangible assets	Total
Gross carrying amount as at 31 December 2009	0	253	253
Movements for the year:			
• increases	0	16	16
• decreases	0	0	0
• other	0	4	4
• translation adjustments	0	0	0
Gross carrying amount as at 31 December 2010	**0**	**273**	**273**
Amortisation and impairment as at 31 December 2009	0	(207)	(207)
Movements for the year:			
• charges	0	(20)	(20)
• recoveries	0	0	0
• other	0	0	0
• translation adjustments	0	(3)	(3)
Amortisation and impairment as at 31 December 2010	**0**	**(230)**	**(230)**
NET CARRYING AMOUNT AS AT 31 DECEMBER 2010	**0**	**43**	**43**

Intangible assets primarily include software purchased and in-house software development costs that have been capitalised.

2.9. Tangible assets (item IX - assets)

Detailed analysis and movements for the year

(EUR millions)	Land and buildings	Fixtures, equipment, furniture and vehicles	Other tangible assets	Assets under construction and prepayments	Total
Cost as at 31 December 2009	1	6	46	0	53
Movements for the year:					
• acquisitions	0	0	0	0	0
• disposals and retirements	0	0	(2)	0	(2)
• other	0	0	0		0
• translation adjustments	0	0	1	0	1
Cost as at 31 December 2010	**1**	**6**	**45**	**0**	**52**
Capital gains as at 31 December 2010	0	0	0	0	0
Depreciation and impairment as at 31 December 2009	0	(3)	(36)	0	(39)
Movements for the year:					
• charges	0	0	(3)	0	(3)
• recoveries	0	0	2	0	2
• other	0	0	0	0	0
• translation adjustments	0	0	0	0	0
Depreciation and impairment as at 31 December 2010	**0**	**(3)**	**(37)**	**0**	**(40)**
NET CARRYING AMOUNT AS AT 31 DECEMBER 2010	**1**	**3**	**8**	**0**	**12**

2.10. Other assets and accruals (items XIII and XIV - assets)

Detailed analysis

(EUR millions)	As at 31 December 2009	As at 31 December 2010
Other assets		
Premiums paid on swaptions issued	17	25
Premiums paid on options	68	68
Guarantee deposits paid(1)	12,150	16,946
Tax receivables	1	1
Deferred tax assets	729	944
Other non-current financial assets	0	0
Other assets	18	112
TOTAL OTHER ASSETS	**12,983**	**18,096**

(1) Guarantee deposits paid consist nearly entirely of collateral deposited under contracts with the primary counterparties trading on derivatives markets. The increase in cash collateral is attributable essentially to the change in interest rates in 2010.

(EUR millions)	As at 31 December 2009	As at 31 December 2010
Accruals		
Premiums and deferred charges on borrowings	335	320
Premiums on loans and other deferred charges	67	72
Premiums and deferred charges on hedging transactions	845	825
Premiums and deferred charges on trading transactions	752	1,030
Accrued income on hedging transactions	1,044	1,661
Accrued income on trading transactions	4,975	6,308
Unrealised translation losses	416	205
Other accrued income	1,306	800
TOTAL ACCRUALS	**9,740**	**11,221**

2.11. Analysis of assets by currency

Classification by currency of origin (EUR millions)	**As at 31 December 2010**
In EUR	103,511
In other EU currencies	9,104
In other currencies	59,942
TOTAL ASSETS	**172,557**

3. Notes on the liabilities and equity

3.1. Interbank borrowings and deposits (item I - liabilities and equity)

a. Accrued interest

(EUR millions)	119

b. Analysis by term to maturity, excluding accrued interest

(EUR millions)	**As at 31 December 2009**	**As at 31 December 2010**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**
Demand deposits[1]	12,517	10,181	10 181	0	0	0
Term deposits	71,611	54,726	31,615	4,216	11,657	7,238
TOTAL	**84,128**	**64,907**	**41,796**	**4,216**	**11,657**	**7,238**

(1) Due to the intense funding activity during 2010, funding from central banks now represents only EUR 6.4 billion as at 31 December 2010 compared with EUR 10 billion as at 31 December 2009.

3.2. Customer deposits (item II - liabilities and equity)

a. Accrued interest

(EUR millions)	17

b. Analysis by term to maturity, excluding accrued interest

(EUR millions)	**As at 31 December 2009**	**As at 31 December 2010**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**
Demand deposits	0	0	0	0	0	0
Term deposits	1,892	2,478	2,026	0	277	175
TOTAL	**1,892**	**2,478**	**2,026**	**0**	**277**	**175**

c. Analysis by type of customer, excluding accrued interest

(EUR millions)	**As at 31 December 2009**	**As at 31 December 2010**
Public sector	1,118	1,651
Other sectors	774	827
TOTAL	**1,892**	**2,478**

3.3. Debt securities (item III - liabilities and equity)

a. Accrued interest

(EUR millions)	429

b. Analysis by term to maturity, excluding accrued interest

(EUR millions)	As at 31 December 2009	As at 31 December 2010	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Interbank and other negotiable debt securities	59,511	55,572	12,316	15,392	23,943	3,921
Bonds	7,525	17,900	60	3,340	10,457	4,043
TOTAL	**67,036**	**73,472**	**12,376**	**18,732**	**34,400**	**7,964**

As at 31 December 2010, medium- and long-term borrowings, in the form of Euro Medium-Term Notes, BMTN (domestic short- or medium-term notes) and bonds, amounted to EUR 62 billion.

c. Analysis by type of security and movements for the year, excluding accrued interest

(EUR millions)	Interbank market securities and negotiable debt securities	Bonds	Total
As at 31 December 2009	59,511	7,525	67,036
Movements for the year:			
• new issues	30,769	10,295	41,064
• redemptions	(35,401)	(117)	(35,518)
• translation adjustments	693	197	890
• other	0	0	0
AS AT 31 DECEMBER 2010	**55,572**	**17,900**	**73,472**

3.4. Other liabilities and accruals (items IV and V - liabilities and equity)

Detailed analysis

Other liabilities and accruals (EUR millions)	As at 31 December 2009	As at 31 December 2010
Other liabilities		
Guarantee deposits received	**629**	**920**
Premiums on options sold	16	10
Other creditors(1)	5,015	7,288
TOTAL OTHER LIABILITIES	**5,660**	**8,218**
Accruals		
Deferred income on loans	64	92
Discounts recognised on purchase of receivables	0	0
Deferred income on hedging transactions	1,067	1,104
Deferred income on trading transactions	907	1,234
Deferred gains on edging contracts	89	43
Accrued charges on hedging transactions	2,423	2,079
Accrued charges on trading transactions	4,815	6,382
Unrealised translation gains	928	1,459
Other deferred income	57	65
Other accrued charges	120	124
Other accrued liabilities	510	726
TOTAL ACCRUALS	**10,980**	**13,308**

(1) As at 31 December 2010, EUR 7.3 billion corresponds to liabilities related to borrowed securities.

3.5. Provisions for risks and charges (item VI – liabilities and equity)

(EUR millions)	As at 31 December 2009	Additions	Recoveries	Other movements[3]	As at 31 December 2010
Provisions for risks and charges	**2,228**	**1,779**	**(766)**	**54**	**3,295**
• pensions and similar commitments[1]	8	2	0	0	10
• financing commitments	275	34	(155)	0	154
• other financial instruments	1,178	1,087	(570)	63	1,758
• other risks and charges[2]	765	655	(41)	(9)	1,370
• country risk	2	1	0	0	3
Provisions for deferred taxes	**60**	**80**	**(29)**	**0**	**111**
Regulated provisions	**337**	**11**	**(11)**	**0**	**337**
• provisions for medium- and long-term loans	310	0	0	0	310
• provisions for accelerated tax depreciation	22	9	(10)	0	21
• provision for investment	5	2	(1)	0	6
TOTAL	**2,625**	**1,870**	**(806)**	**54**	**3,743**

(1) Provisions for termination benefits and long-service awards.
(2) Other provisions for risks and charges in 2010 include the EUR 1,233 million provision for risk on the Dexia Holdings Inc. subsidiary to which EUR 632 million was added during the year. Calculated on the basis of the value in use of the entity, this provision is used notably to cover expected economic losses on the Financial Products portfolio and expenses related to the State guarantee provided on the risks of that portfolio throughout the duration of the guarantee.
(3) Other movements relate to the amortisation of gains on disposals, realised when assigning loans of EUR 9 million to Dexia Municipal Agency, and to translation adjustments.

3.6. Subordinated debt (item VIII - liabilities and equity)

a. Accrued interest

(EUR millions)	20

b. Movements for the year, excluding accrued interest

(EUR millions)	Total
As at 31 December 2009	5,246
Movements for the year:	
• new issues	131
• maturities and redemptions[1]	(640)
• translation adjustments	0
• other movements	0
AS AT 31 DECEMBER 2010	**4,737**

(1) Redemption of a EUR 640 million subordinated borrowing simultaneously with the capital increase staged in December.

c. Details of individual subordinated borrowings

Currency	Maturity	Amount (in millions)	a) Early repayment conditions b) Subordination conditions c) Convertibility conditions	Interest rate (%)
USD	No fixed maturity	250	a) Early repayment impossible during the first 10 years except after prior approval by the general secretariat of the French Banking Commission* and unless replaced by equity of equivalent or better quality. Early repayment possible at each due date for interest payments with effect from 01/10/2012 after approval by the general secretariat of the French Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M USD LIBOR + 1.1 From 02/10/2012, 3M USD LIBOR + 1.85
USD	No fixed maturity	1,190	a) Early repayment impossible during the first 10 years except after prior approval by the general secretariat of the French Banking Commission and unless replaced by equity of equivalent or better quality. Early repayment possible at each due date for interest payments with effect from 05/04/2015 after approval by the general secretariat of the French Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M USD LIBOR + 0.39 From 06/04/2015, 3M USD LIBOR + 1.14
EUR	No fixed maturity	200	a) Early repayment impossible during the first 10 years except after prior approval by the general secretariat of the French Banking Commission and unless replaced by equity of equivalent or better quality. Early repayment possible at each due date for interest payments with effect from 01/07/2015 after approval by the general secretariat of the French Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M EURIBOR + 0.79 From July 2015 to July 2020, 3M EURIBOR + 1.40 then 3M EURIBOR + 2.15
EUR	01/12/2014	100	a) No early repayment b) No specific conditions c) No conversion	93.25% CMS
EUR	12/02/2019	300	a) Early repayment possible at each due date for interest payments with effect from 12/02/2014 after approval by the general secretariat of the French Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	Fixed rate 4.375 From 02/12/2014 3M EURIBOR + 0.72
EUR	09/07/2017	500	a) Early repayment possible at each due date for interest payments with effect from 09/07/2012 after approval by the general secretariat of the French Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M EURIBOR + 0.15 From 09/07/2012, 3M EURIBOR + 0.65
EUR	01/01/2015	450	a) Early repayment possible at each due date for interest payments with effect from 01/01/2010 after prior approval by the general secretariat of the French Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M EURIBOR + 0.32
EUR	28/12/2017	300	a) Early repayment possible at each due date for interest payments with effect from 28/12/2012 after prior approval by the general secretariat of the French Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M EURIBOR + 1.45 until 28/12/2012 then 3M EURIBOR + 1.95
USD	27/09/2012	60	a) Early repayment possible at each due date for interest payments with effect from 01/10/2007 after prior approval by the general secretariat of the French Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M USD LIBOR + 0.5925
USD	01/04/2013	130	a) Early repayment possible at each due date for interest payments with effect from 01/04/2008 after prior approval by the general secretariat of the French Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M USD LIBOR + 0.5475

Currency	Maturity	Amount (in millions)	a) Early repayment conditions b) Subordination conditions c) Convertibility conditions	Interest rate (%)
USD	01/04/2013	200	a) Early repayment possible at each due date for interest payments with effect from 01/04/2008 after prior approval by the general secretariat of the French Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M USD LIBOR + 0.4975
USD	01/10/2013	200	a) Early repayment possible at each due date for interest payments with effect from 01/10/2008 after prior approval by the general secretariat of the French Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M USD LIBOR + 0.4625
USD	01/01/2014	100	a) Early repayment possible at each due date for interest payments with effect from 01/01/2009 after prior approval by the general secretariat of the French Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M USD LIBOR + 0.485
USD	01/07/2014	135	a) Early repayment possible at each due date for interest payments with effect from 01/07/2009 after prior approval by the general secretariat of the French Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M USD LIBOR + 0.43
USD	01/10/2014	265	a) Early repayment possible at each due date for interest payments with effect from 01/10/2009 after prior approval by the general secretariat of the French Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M USD LIBOR + 0.33
EUR	20/06/2018	300	a) Early repayment possible at each due date for interest payments with effect from 20/06/2013 after prior approval by the general secretariat of the French Banking Commission b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	3M EURIBOR + 1.5 From 20/06/2013, 1Y EURIBOR + 2
EUR	No fixed maturity	700	a) Early repayment possible at each due date for interest payments with effect from 18 November 2015 after prior approval by the general secretariat of the French Banking Commission. b) Repayment at par value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares c) No conversion	Fixed rate 4.30 From 2015, EURIBOR 3M + 1.73

**New name effective March 2011: Prudential Control Authority* (Autorité de Contrôle Prudentiel).

3.7. Equity

Analysis of equity

(EUR millions)	Amount
AS AT 31 DECEMBER 2009:	
Capital stock	501
Additional paid-in capital	862
Commitments to increase capital stock and additional paid-in capital	0
Legal reserve	50
General reserves	0
Retained earnings	0
Translation adjustments	(142)
Net income for the year	699
Interim dividends	0
EQUITY AS AT 31 DECEMBER 2009	**1,969**
Movements for the year:	
Capital stock	**0**
Additional paid-in capital(1)	640
Commitments to increase capital stock and additional paid-in capital	0
Reserves and retained earnings(2)	699
Legal reserve	0
Translation adjustments	30
Dividends paid (-)	0
Net loss for the year	(1,530)
Other movements	0
AS AT 31 DECEMBER 2010:	
Capital stock	501
Additional paid-in capital	1,501
Commitments to increase capital stock and additional paid-in capital	0
Legal reserve	50
General reserves	699
Retained earnings	0
Translation adjustments	(112)
Net loss for the year(3)	(1,530)
Interim dividends	0
EQUITY AS AT 31 DECEMBER 2010	**1,109**

(1) At its meeting of 14 December 2010, Dexia Crédit Local's Board of Directors decided to increase the Company's capital stock by EUR 640 million in cash and to reduce capital stock by EUR 640 million.
Dexia Crédit Local's capital stock of EUR 500,513,102.75 is composed of 87,045,757 shares with a par value of EUR 5.75 per share.
(2) The Combined Shareholders' Meeting held on 21 May 2010 decided to allocate in full the 2009 net income of EUR 699 million to general reserves, resulting in total general reserves of EUR 699 million.
(3) The Combined Shareholders' Meeting is requested to allocate the net loss for the year as follows:
- EUR 640 million to the non-distributable reserve established to write off part of the losses for the year;
- EUR 699 million to general reserves;
- EUR 191 million to additional paid-in capital.

In respect of 2008, Dexia Crédit Local increased its capital stock in cash by EUR 3.5 billion and reduced its capital stock by EUR 4.3 billion, resulting in total capital stock of EUR 500.5 million.
A dividend of EUR 4.55 per share was paid in respect of 2007.

3.8. Analysis of liabilities and equity by currency

Classification by currency of origin (EUR millions)	**As at 31 December 2010**
In EUR	97,482
In other EU currencies	13,676
In other currencies	61,399
TOTAL LIABILITIES AND EQUITY	**172,557**

3.9. Other note to the balance sheet

Transactions with related parties – Analysis by item

(EUR millions)			Total	Of which, related parties[1]
Assets	Items III et IV	Interbank loans and advances and customer loans and advances	83,493	42,116
	Items V, VI, VII	Securities held	57,007	2,294
	Items XIII et XIV	Other assets and accruals	29 317	3,572
Liabilities	Items I et II	Interbank borrowings and deposits and customer deposits	67,521	48,720
	Item III	Debt securities	73,901	978
	Item VIII	Subordinated debt	4,757	4,757
	Items IV et V	Other liabilities and accruals	21,526	283

(1) Related parties are entities included within the consolidation scope of the Dexia Group.

4. Notes on the off-balance sheet

4.1. Financing commitments given (item I - off-balance sheet)

This item includes financing commitments given and commitments given on securities and on loaned foreign currencies. Financing commitments on loans and lines of credit include loans approved but not disbursed as at 31 December 2010.

Analysis by type of beneficiary

(EUR millions)	As at 31 December 2009	As at 31 December 2010
Commitments to credit institutions	9,175	9,480
Commitments to customers	33,432	26,731
Commitments given on securities	302	168
TOTAL	**42,909**	**36,379**

4.2. Guarantees given (item II - off-balance sheet)

a. Analysis by type of beneficiary

(EUR millions)	As at 31 December 2009	As at 31 December 2010
Guarantees given to credit institutions	34,639	36,526
Guarantees given to customers	23,673	20,308
TOTAL	**58,312**	**56,834**

b. Analysis by type of transaction

(EUR millions)	As at 31 December 2009	As at 31 December 2010
Types of guarantees given		
• guarantees	58,312	56,834
• endorsements	0	0
• liens on assets	0	0
TOTAL	**58,312**	**56,834**

c. Contingent liabilities and risks and losses not quantifiable at the date of preparation of the financial statements

At the date when the financial statements were prepared, there were no contingent liabilities, risks or losses that were not quantifiable.

4.3. Assets pledged as collateral (item III - off-balance sheet)

(EUR millions)	Pledges on assets at 31 December 2009	Pledges on assets[(1)] as at 31 December 2010
As collateral for debts and commitments of the Company	0	0
Balance sheet liabilities	0	0
Off-balance sheet items	31,526	29,922
TOTAL	**31,526**	**29,922**

(1) Carrying amount of the assets pledged. This item relates to collateral of EUR 6.3 billion in loans pledged for borrowings from international financial institutions; loans of EUR 4 billion given as collateral to Dexia LdG Banque SA; assets amounting to EUR 10.3 billion pledged as collateral to central banks; and commitments of EUR 7.5 billion given on the New York branch's Tender Option Bond (TOB).

4.4. Financing commitments and guarantees received (items IV and V - off-balance sheet)

These items include all financing commitments and guarantees received from credit institutions, and commitments received on securities and foreign currency borrowings.

(EUR millions)	As at 31 December 2009	As at 31 December 2010
Financing commitments received from credit institutions	4,227	4,949
Currencies borrowed but not yet received	753	954
Guarantees received from credit institutions	11,762	11,177
Guarantees received from local authorities or claims on local authorities acquired as guarantees	10,575	16,295
Other commitments received	1,650	1,855
TOTAL	**28,967**	**35,230**

4.5. Commitments related to securities (item VI - off-balance sheet)

a. Analysis by type of transaction

(EUR millions)	As at 31 December 2009	As at 31 December 2010
Purchases		
• spot	0	0
• forward	276	208
Sales		
• spot	0	0
• forward	276	208
TOTAL	**552**	**416**

b. Isolated open positions

Unrealised gains on isolated open positions	0

4.6. Commitments related to foreign currency transactions (item VII - off-balance sheet)

Spot and forward currency transactions are presented at their value in their accounting currency, translated at the closing foreign exchange rate at the year end.

The line "Foreign currencies to be received" amounted to EUR 36 billion and the line "Foreign currencies to be delivered" to EUR 37 billion as at 31 December 2010.

4.7. Commitments related to forward and derivative financial instruments (item VIII - off-balance sheet)

a. Analysis by type of use and instrument

Type of transaction (EUR millions)	As at 31 December 2009	As at 31 December 2010	Hedging		Trading		Fair value as at 31 December 2010
			Micro hedging	Macro hedging	Isolated open position	Specialised trading portfolio management	
Foreign currency instruments[1]	40,776	36,871	13,615	15,861	3,791	3,604	(2,105)
• forward currency purchases and sales	15,517	13,916	0	11,013	2,903	0	0
• currency and interest rate swaps	25,259	22,955	13,615	4,848	888	3,604	(2,105)
• currency futures	0	0	0	0	0	0	0
• currency options	0	0	0	0	0	0	0
• forward currency agreements	0	0	0	0	0	0	0
Other financial instruments	600,116	558,327	69,907	327,077	10,260	151,083	(4,585)
Interest rate instruments[2]							
• interest rate swaps	587,196	542,808	64,544	327,077	1,673	149,514	(5,084)
• futures	25	17	0	0	17	0	0
• forward rate agreements	2,215	5,065	0	0	5,065	0	0
• interest rate options	2,832	2,701	843	0	315	1,543	42
Other forward purchases and sales[3]							
• other options	7,848	7,736	4,520	0	3,190	26	457
• other futures	0	0	0	0	0	0	0
• other forward purchases and sales	0	0	0	0	0	0	0
TOTAL	**640,892**	**595,198**	**83,522**	**342,938**	**14,051**	**154,687**	**(6,690)**

(1) Amount to be delivered.
(2) Face value/notional amount.
(3) Purchase/selling price agreed between the parties.

b. Analysis by type of market

Type of instrument (EUR millions)	Over-the-counter market	Organised market	As at 31 December 2010
Foreign currency instruments	36,871	0	36,871
Other financial instruments			
• interest rate instruments	550,591	0	550,591
• other forward purchases and sales	7,736	0	7,736
TOTAL	**595,198**	**0**	**595,198**

c. Analysis of forward contracts and options

Type of instrument (EUR millions)	Forward contracts	Options	As at 31 December 2010
Foreign currency instruments	36,871	0	36,871
Other financial instruments			
• interest rate instruments	543,448	7,143	550,591
• other forward purchases and sales	6,079	1,657	7,736
TOTAL	**586,398**	**8,800**	**595,198**

d. Analysis by term to maturity

Type of instrument (EUR millions)	Less than 1 year	1 to 5 years	Over 5 years	As at 31 December 2010
Foreign currency instruments	16,661	3,395	16,815	36,871
Other financial instruments				
• interest rate instruments	266,622	87,296	196,673	550,591
• other forward purchases and sales	30	901	6,805	7,736
TOTAL	**283,313**	**91,592**	**220,293**	**595,198**

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e. Off-balance sheet forward transactions, including securities, currencies and other forward and derivative financial instruments

Commitments related to interest rate derivatives are recorded in compliance with CRB Regulations 88-02 and 90-15:

- forward contracts are carried at the nominal value of the contracts;
- options are carried at the nominal value of the underlying instrument.

Dexia Crédit Local uses forward financial instruments as part of the three following strategies:

- asset-liability management
  This includes all transactions intended to cover and manage the total interest rate exposure of the Company. ALM is carried out primarily through the use of swaps and futures contracts.

- specific hedging
  Hedges are used to cover interest rate risks on a specific item or a group of items with similar characteristics, identified at the outset.

  Instruments meeting this definition consist primarily of swaps acquired as micro hedges of primary issues, bonds in the available for sale or held to maturity portfolios, and customer loans. The hedging instruments have the effect of creating synthetic variable- or adjustable-rate assets or liabilities, which are immunised against interest rate risk.

  Foreign currency swaps are also classified as hedges when they are used to transform sources of funding in one currency into the currency used in the transactions they finance in the goal of reducing currency risk.

- position management

  The position management strategy includes two types of activities:

  - specialist trading portfolio management;
  - position-taking.

The specialist trading portfolio management activity includes all transactions entered into with local authorities and the symmetrical transactions executed with banking counterparties. The transactions include primarily interest rate swaps. Specialised duration management is employed for the transactions included in this activity.

Derivatives held in the position-taking portfolio are intended to keep isolated open positions in order to take advantage of any favourable movements in interest rates or exchange rates. These transactions include primarily interest rate swaps and forward foreign exchange transactions.

f. Risk monitoring

Risk is measured by the Risk Management department. The main risk indicator used by Dexia Crédit Local, and throughout the entire Dexia Group, is VaR. The VaR calculated by the Dexia Group measures the potential loss over a 99% confidence interval over a 10-day period. The risk management system consists of allocating to each entity, and for each type of financial market activity, the following items:

- a list of foreign currencies and transactional structures likely to be used;
- a VaR limits.

4.8. Transactions with related parties

Analysis by item

(EUR millions)			Total	Of which, related parties[1]
Off-balance sheet	Item I	Financing commitments given	36,379	11,988
	Item II	Guarantees given	56,834	43,784
	Item IV	Financing commitments received	5,903	1,100
	Item V	Guarantees received	29,327	11,037
	Items III, VI, VII, VIII	Other commitments given and received	663,372	219,464

(1) Related parties are entities included within the consolidation scope of the Dexia Group.

5. Notes on the income statement

5.1. Interest income and interest expense (items I and II - income statement)

(EUR millions)	As at 31/12/2009	As at 31/12/2010
Interest income on:		
Interbank loans (a)	825	692
Customer loans (b)	1,751	1,646
Bonds and other fixed-income securities (c)	1,897	880
Macro hedging transactions (d)	5,544	3,445
Total interest income	**10,017**	**6,663**
Interest expense on:		
Interbank loans (a)	(1,774)	(1,198)
Customer loans (b)	(155)	(321)
Bonds and other fixed-income securities (c)	(1,617)	(1,268)
Macro hedging transactions (d)	(6,113)	(4,185)
Total interest expense	**(9,659)**	**(6,972)**
NET	**358**	**(309)**

a. Interest income and expenses on interbank transactions

Interest income and expenses on interbank transactions includes a charge of EUR 1,475 million of transactions with related parties.

It includes an expense relating to the sovereign guarantee amounting to EUR 340 million in 2010 compared with EUR 251 million in 2009.

b. Interest income and expenses on customer loans

Interest income and expenses on customer loans represented a net amount of EUR 1,325 million.

The heading includes EUR 1,142 million in accrued interest income and expense on customer loans.

It also includes income from financing commitments and guarantees of EUR 183 million.

c. Interest income and expenses on bonds and other fixed-income securities

The heading includes EUR 880 million in accrued interest on bonds and other fixed-income securities, amortisation of discounts and premiums on held-to-maturity securities and available-for-sale securities, and the related hedging gains and losses on these securities.

Interest expenses amounted to EUR 1,268 million for Dexia Crédit Local.

In addition to interest expenses on bonds and other fixed-income securities, the heading also includes interest rate hedging gains and losses on specifically identified negotiable debt, bond and subordinated debt issues.

d. Income and expenses on macro hedging transactions

Income and expenses on macro hedging transactions amounted to EUR 3,445 million and EUR 4,185 million respectively. These amounts are included in either items I or II of the income statement, as appropriate.

5.2. Analysis of income from variable-income securities (item III - income statement)

(EUR millions)	As at 31/12/2009	As at 31/12/2010
Dexia Group related parties(1)	188	173
Other related parties and long-term investments(2)	49	6
Equities and other variable-income securities	2	2
TOTAL	**239**	**181**

(1) Includes dividends of EUR 134 million received from the Dexia Municipal Agency subsidiary in 2010 compared with EUR 114 million in 2009.
(2) The decline in this item between 2009 and 2010 is due to the lower dividends received from the Floral subsidiary: EUR 35 million in 2009 compared with EUR 4 million in 2010.

5.3. Analysis of fees and commissions (items IV and V - income statement)

a. Analysis of fee and commission income (item IV - income statement)

Type (EUR millions)	As at 31/12/2009	As at 31/12/2010
Loans	11	9
Other financial services	1	2
TOTAL	**12**	**11**

b. Analysis of fee and commission expenses (item V - income statement)

Type (EUR millions)	As at 31/12/2009	As at 31/12/2010
Loans	(1)	(2)
Securities transactions	(2)	(1)
Other financial services	(14)	(20)
TOTAL	**(17)**	**(23)**

5.4. Analysis of gains and losses on securities portfolios (item VI - income statement)

(EUR millions)	As at 31/12/2009	As at 31/12/2010
Gains and losses on:		
• held-for-trading securities(1)	927	185
• foreign currency transactions	(106)	(187)
• other financial instruments	(708)	(384)
Sub-total	**113**	**(386)**
• available-for-sale and similar securities(1)(2)	1,051	(386)
Sub-total	**1,051**	**(386)**
TOTAL	**1,164**	**(772)**

(1) The portfolios of held-for-trading and available-for-sale securities reflect the strong volatility and illiquidity of the financial markets.
(2) This line includes gains and losses on disposal and charges to/recoveries from provisions in respect of the available-for-sale securities, as well as gains and losses on portfolio securities.
These impairment provisions reflect the widening of spreads in the "Sovereigns" and "Local authorities" segments.

Analysis of gains and losses on disposal and changes in impairment provisions for available-for-sale securities

(EUR millions)	As at 31/12/2009	As at 31/12/2010
• charges to impairment	(526)	(1,283)
• recoveries of impairment	1,547	794
Sub-total	**1,021**	**(489)**
• disposal losses	(50)	(147)
• disposal gains	80	250
Sub-total	**30**	**103**
TOTAL	**1,051**	**(386)**

5.5. General operating expenses (item IX - income statement)

a. Detailed analysis

(EUR millions)	As at 31/12/2009	As at 31/12/2010
Payroll costs	**(184)**	**(185)**
• salaries and wages	(122)	(130)
• social security	(62)	(55)
Other administrative expenses	**(12)**	**(19)**
• taxes and duties	(22)	(8)
• other administrative expenses	(7)	(10)
• provision for restructuring(1)	17	(1)
TOTAL	**(196)**	**(204)**

(1) In 2010, a EUR 27 million restructuring provision was raised mainly to cover restructuring costs relating to the closure of the Tokyo and London branches. A provision of around EUR 26 million was reversed in connection with the implementation of the Dexia Crédit Local transformation plan.

b. Employee information

	As at 31/12/2009	As at 31/12/2010
Total employees as at 31 December	**1,472**	**1,341**
• executive management[1]	146	100
• other management	977	904
• administrative personnel	349	337
Payroll costs (EUR millions)	**(189)**	**(183)**
• salaries and benefits	(127)	(129)
• payroll taxes	(42)	(37)
• other payroll costs	(19)	(17)
• pension cost	(1)	0
Provisions for pensions (EUR millions)	**5**	**(2)**
• charges (+)	(4)	(2)
• recoveries (-)	9	0
TOTAL	**(184)**	**(185)**

(1) The definition of executive management was revised in 2010 to include members of the Management Board.

5.6. Cost of risk (item XI - income statement)

(EUR millions)	Allowances and losses	Reversals and recoveries	As at 31/12/2010
Provisions for impairment and losses on loans	(129)	65	(64)
Provisions for risks	(632)	0	(632)
Regulated reserves	(9)	10	1
TOTAL	**(770)**	**75**	**(695)**

The cost of risk came to EUR 695 million in 2010 and essentially comprises:

- a provision of EUR 632 million, calculated on the basis of the value in use of the Dexia Holdings Inc. subsidiary;
- a debt cancellation of EUR 109 million in respect of the Dexia Crédit Local Asia Pacific Pty Ltd. subsidiary;
- a EUR 46 million improvement in credit risk in 2010.

Excluding the provision for Dexia Holdings Inc., the cost of risk amounted to EUR 63 million.

5.7. Net gains (losses) on long-term investments (item XII - income statement)

a. Detailed analysis

	As at 31/12/2009		Total	As at 31/12/2010		Total
(EUR millions)	Related parties	Other	as at 31/12/2009	Related parties	Other	as at 31/12/2010
Provisions for impairment[1]	(77)	0	(77)	(13)	(1)	(14)
Recoveries of impairment[2]	0	205	205	0	35	35
Sub-total	**(77)**	**205**	**128**	**(13)**	**34**	**21**
Disposal losses[2]	(7)	(209)	(216)	0	(38)	(38)
Disposal gains[3]	0	154	154	0	6	6
Sub-total	**(7)**	**(55)**	**(62)**	**0**	**(32)**	**(32)**
TOTAL	**(84)**	**150**	**66**	**(13)**	**2**	**(11)**

(1) Includes a EUR 13 million impairment on the securities in the SISL subsidiary in 2010.
Fiscal 2009 includes the recovery of a provision on shares in Kommunalkredit Austria and recognition of the equivalent loss for EUR 205 million.
(2) Includes the recovery of the provision of EUR 35 million against shares in Dexia Épargne Pension and recognition of the equivalent loss.
(3) Includes the gain on disposal of shares in Crédit du Nord (EUR 153 million) in 2009.

b. Analysis by type of investment

(EUR millions)	As at 31/12/2009	As at 31/12/2010
Participating interests	150	3
Investments in related parties	(84)	(14)
TOTAL	**66**	**(11)**

5.8. Other banking income and expenses

a. Other banking income (item VII - income statement)

(EUR millions)	As at 31/12/2009	As at 31/12/2010
Other banking income	5	3
Other miscellaneous income	1	1
TOTAL	**6**	**4**

b. Other banking expenses (item VIII - income statements)

(EUR millions)	As at 31/12/2009	As at 31/12/2010
Other banking expenses	0	(1)
Other miscellaneous expenses	0	0
TOTAL	**0**	**(1)**

5.9. Non-recurring items (item XIII - income statement)

(EUR millions)	As at 31/12/2009	As at 31/12/2010
Non-recurring income	0	0
Non-recurring expenses	0	0

5.10. Corporate income tax (item XIV - income statement)

a. Analysis of taxation charge

(EUR millions)	As at 31/12/2009	As at 31/12/2010
Corporate income tax	(184)	107
Deferred taxes	94	207
Other	0	0
TOTAL	**(90)**	**314**

In 2010, the tax rate used for France was 34.43%.
The tax rate applicable to foreign branches is generally lower.

b. Exceptions to the general valuation principles, as provided for by tax law

(EUR millions)	As at 31/12/2009	As at 31/12/2010
Regulated reserves	**1**	**(1)**
• Provision for medium- and long-term loans	0	0
• Provision for investments	1	(1)
Accelerated tax depreciation	**(1)**	**1**

c. Tax consolidation

Dexia SA Établissement Stable in France became head of the tax consolidation group in 2002. Dexia Crédit Local is part of that group.

5.11. Financial relationship with members of the Management Board and the Board of Directors

(EUR millions)	
Compensation paid to the members of the Management Board and the Board of Directors of the Company in respect of their functions within the Company and its subsidiaries and associated companies	
Management Board	4
Board of Directors	0
TOTAL	**4**
Amounts owed, contingent liabilities in their favour and other material commitments underwritten in their favour	
Management Board	0
Board of Directors	0
TOTAL	**0**

5.12. Analysis by geographical region and line of business

a. Analysis by geographical region

(EUR millions)	Net banking income	Gross operating income	Net income
France	(77)	(233)	(811)
Foreign branches	(832)	(905)	(719)
TOTAL	**(909)**	**(1,138)**	**(1,530)**

b. Analysis by line of business

	Net banking income		Gross operating income		Net income	
(EUR millions)	As at 31/12/2009	As at 31/12/2010	As at 31/12/2009	As at 31/12/2010	As at 31/12/2009	As at 31/12/2010
Public and Wholesale Banking	327	340	120	175	100	208
Retail and Commercial Banking	161	0	161	0	158	0
Other	1,272	(1,249)	1,255	(1,313)	441	(1,738)
TOTAL	**1,760**	**(909)**	**1,536**	**(1,138)**	**699**	**(1,530)**

6. Subsidiaries and equity investments as at 31 December 2010

Company	Capital stock	Additional paid-in capital, reserves and retained earnings	Revenue or net banking income for last financial year	Net income for last financial year
1 - Details of subsidiaries and equity investments whose carrying amount exceeds 1% of Dexia Crédit Local's capital stock				
A - Subsidiaries (50% to 100% of equity)				
(EUR)				
CLF Immobilier 1 Passerelle des Reflets - Tour Dexia La Défense 2 - 92913 La Défense	2,364,700	13,654,930	330,719	933,238
Dexia Crédit Local Asia Pacific Pty. Ltd. Level 23, Veritas house, 207 Kent Street, Sydney, NSW, 2000	40,662,368	(40,567,244)	(25 846,634)	(22 946,490)
Dexia Sabadell SA* Paseo de las Doce Estrallas 4 Campo de las Naciones- E - 28042 Madrid	237,061,000	159,632,877	98,920,393	64,266,514
Dexia Crediop* Via Venti settembre N. 30 - I00187 Rome	450,210,000	665,188,534	26,997,200	(20768,726)
Dexia Holdings Inc. 445 Park Avenue, 7th floor, NY 10022 New York	1,970,429,182	(1,787,796,325)	(126,743,849)	(374,822,411)
Dexia Kommunalbank Deutschland AG Charlottenstr. 82 - D - 10969 Berlin	282,500,000	248,593,337	39,337,000	793,845
Dexia Municipal Agency 1 Passerelle des Reflets - Tour Dexia La Défense 2 - 92913 La Défense	1,190,000,000	46,632,792	290,254,994	120,057,088
Dexia Israël Bank Ltd. 19 Ha'arbaa Str, Hatichon Tower - Tel Aviv 64739	37,127,964	44,271,199	25,854,718	12,179,321
SISL 180, rue des Aubépines L 1145 - Luxembourg	1,000,000	3,185,372	20,572	(249,637)
Dexia Sofaxis Route de Creton - 18110 Vasselay	613,020	46,296,278	15,994,555	9,493,193
CBX. IA 1 1 Passerelle des Reflets - Tour Dexia La Défense 2 - 92913 La Défense	1,130,004	(228,049)	(129,756)	(135,316)
CBX. IA 2 1 Passerelle des Reflets - Tour Dexia La Défense 2 - 92913 La Défense	141,140,624	(38,916,824)	18,612,381	6,057,863
Dexia Flobail 1 Passerelle des Reflets - Tour Dexia La Défense 2 - 92913 La Défense	56,100,175	(118,050,066)	4,032,499	(34,978,854)
Dexia Kommunalkredit Bank AG Fischhof 3 - A - 1010 Wien	220,000,000	6,287,993	30,888,600	(2,365,850)
Dexia CLF Banque 1 Passerelle des Reflets - Tour Dexia La Défense 2 - 92913 La Défense	7,625,000	5,678,245	25,237,892	11,039,937
Dexia Bail 1 Passerelle des Reflets - Tour Dexia La Défense 2 - 92913 La Défense	9,050,600	(1,916,424)	742,588	(1,402,554)
Dexia CLF Régions Bail 1 Passerelle des Reflets - Tour Dexia La Défense 2 - 92913 La Défense	7,625,000	9,045,695	4,155,226	2,213,473
B - Equity investments (10% to 50% of equity)				
Exterimmo 100-104 Avenue de France 75013 Paris	50,000,000	451,000	76,000	22,000
2 - General information				
A - Other subsidiaries not included in section 1-A				
– French companies				
– Foreign companies				
B - Other companies not included in section 1-B and participating interests in which less than 10% of equity is held				
– French companies				
– Foreign companies				

**Companies that produce financial statements only under IFRS.*
(1) Loans and advances granted are fully provisioned.

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Interest in equity (%)	Carrying amount of securities held		Dividends received by Dexia Crédit Local during the year	Loans and advances granted by Dexia Crédit Local	Guarantees given by Dexia Crédit Local	Activity
	Gross	Net				
100.00%	33,691,141	16,232,208	0	0	0	Financial engineering in real estate
100.00%	40,662,368	0	0	14,255,461	0	Non-banking finance company
60.00%	142,236,600	142,236,600	8,509,584	2,534,998,090	6,423,043,388	Bank, credit institution
70.00%	581,223,585	581,223,585	0	1,308,531,181	5,574,607,567	Bank, credit institution
90.00%	2,188,422,723	0	0	373,162,176[1]	0	Holding company
100.00%	493,339,375	493,339,375	0	511,222,017	0	Bank, credit institution
100.00%	1,189,999,909	1,189,999,909	133,560,000	12,770,575,127	6,626,383,717	*Société de crédit foncier*
65.31%	56,002,387	56,002,387	698,441	146,605,554	155,142,094	Bank, credit institution
100.00%	16,864,002	3,864,002	0	250,000	0	Management of equity investments
99.98%	50,056,308	50,056,308	13,281,051	0	0	Holding and management of equity investments in insurance broking companies
100.00%	39,863,172	39,863,172	0	25,485,028	14,972,	Acquisition of land, buildings and property rights
70.85%	100,000,058	100,000,058	0	175,481,051	94,018,950	Real estate leasing
100.00%	39,127,397	39,127,397	0	834,022,391	1,605,230,705	Lease financing of local investments
100.00%	160,226,100	160,226,100	0	3,649,538,457	959,211,493	Holding company
100.00%	19,738,631	19,738,631	15,999,808	1,685,600,822	6,272,194,197	Bank, credit institution
99.91%	9,622,149	9,622,149	0	129,964,675	112,653,629	Equipment lease financing
100.00%	7,941,401	7,941,401	529,994	477,223,183	267,625,621	Real estate leasing
40.00%	20,000,000	20,000,000	0	0	0	Acquisition of land, buildings and property rights
	11,662,678	7,483,572	6,006,933	126,637,494	0	
	8,477,441	7,780,856	0	1,943,654,893	3,395,593,827	
	21,757,852	18,198,354	131,684	678,754,340	116,235,318	
	884,954	884,954	930	0	0	

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7. Dexia Crédit Local securities portfolio

a. Available-for-sale portfolio

(EUR millions)	Market value	Portfolio value	Unrealised gains[1]	Unrealised losses	Net carrying amount
Bonds and other fixed-income securities					
French bonds	**1,368**	**1,311**	**92**	**0**	**1,276**
• Public sector bodies	130	120	12	0	118
– Central governments	0	0	0	0	0
– Local authorities	130	120	12	0	118
• Other issuers	1,238	1,191	80	0	1,158
– Credit institutions	851	836	47	0	804
– Other private companies	387	355	33	0	354
– Perpetual bonds	0	0	0	0	0
Foreign bonds	**43,562**	**41,423**	**3,955**	**0**	**39,607**
• Public sector bodies	18,186	16,801	2,191	0	15,995
– Central governments	1,821	1,722	148	0	1,673
– Local authorities	16,365	15,079	2,043	0	14,322
• Other issuers	25,376	24,622	1,764	0	23,612
– Credit institutions	7,560	7,558	324	0	7,236
– Other private companies	17,816	17,064	1,440	0	16,376
– Perpetual bonds	0	0	0	0	0
TOTAL BONDS AND OTHER FIXED-INCOME SECURITIES	**44,930**	**42,734**	**4,047**	**0**	**40,883**
Equities and other variable-income securities					
• Mutual funds	294	305	39	0	255
• Equities	26	27	3	0	23
TOTAL EQUITIES AND OTHER VARIABLE-INCOME SECURITIES	**320**	**332**	**42**	**0**	**278**
Government securities					
• Public sector bodies	2,488	2,535	83	0	2,405
– Central governments	2,335	2,400	65	0	2,270
– Local authorities	153	135	18	0	135
TOTAL GOVERNMENT SECURITIES	**2,488**	**2,535**	**83**	**0**	**2,405**
TOTAL	**47,738**	**45,601**	**4,172**	**0**	**43,566**

(1) Unrealised gains do not take into account any hedging effects.

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b. Held-to-maturity portfolio

(EUR millions)	Redemption value	Premium (discount)	Provisions for impairment	Net carrying amount
Bonds and other fixed-income securities				
French bonds	**25**	**0**	**0**	**25**
• Public sector bodies				
– Central governments	0	0	0	0
– Local authorities	0	0	0	0
• Other issuers				
– Credit institutions	25	0	0	25
– Other private companies	0	0	0	0
– Perpetual bonds	0	0	0	0
Foreign bonds	**592**	**0**	**0**	**592**
• Public sector bodies				
– Central governments	185	0	0	185
– Local authorities	74	0	0	74
• Other issuers				
– Credit institutions	292	0	0	292
– Other private companies	41	0	0	41
– Perpetual bonds	0	0	0	0
TOTAL BONDS AND OTHER FIXED-INCOME SECURITIES	**617**	**0**	**0**	**617**
Government securities				
• Public sector bodies	40	0	0	40
– Central governments	40	0	0	40
– Local authorities	0	0	0	0
TOTAL GOVERNMENT SECURITIES	40	0	0	40
TOTAL	**657**	0	0	**657**

c. Held-for-trading portfolio

(EUR millions)	Acquisition cost(1)	Market value(1)
Bonds and other fixed-income securities		
French bonds	**179**	**179**
• Public sector bodies	0	0
– Central governments	0	0
– Local authorities	0	0
• Other issuers	179	179
– Credit institutions	15	15
– Other private companies	164	164
Foreign bonds	**11,591**	**11,602**
• Public sector bodies	1,209	1,209
– Central governments	67	67
– Local authorities	1,142	1,142
• Other issuers	10,382	10,393
– Credit institutions	1,810	1,810
– Other private companies	8,572	8,583
TOTAL BONDS AND OTHER FIXED-INCOME SECURITIES	**11,770**	**11,781**
Government securities		
• Public sector bodies	47	47
– Central governments	47	47
– Local authorities	0	0
TOTAL GOVERNMENT SECURITIES	**47**	**47**
TOTAL	**11,817**	**11,828**

(1) Acquisition cost and market value both include all accrued interest.

Statutory Auditor's Report on the financial statements

This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders:

In compliance with the assignment entrusted to us by your Shareholder's Meeting, we hereby report to you, for the year ended 31 December 2010, on:

- the audit of the accompanying financial statements of Dexia Crédit Local;
- the justification of our assessments;
- the specific verification and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at 31 December 2010 and of the results of its operations for the year then ended in accordance with French accounting principles.

II. Justification of our assessments

In accordance with the requirements of Article L.823-9 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we bring to your attention the following matters:

ACCOUNTING ESTIMATES

- In the context of a still uncertain economic environment and continuing high volatility in financial markets, your Company, as mentioned in the note 1.2.b to the financial statements, uses internal models and methodologies to value financial instruments that are not listed on active markets, and for the booking of any impairment.

We reviewed control procedures for the identification of financial instruments that can no longer be traded on an active market and determined the models used,to measure them; evaluated the appropriateness of the data and assumptions; and verified that the risks and results related to these instruments were taken into account.

- As mentioned in the note 1.2.b to the financial statements:

  - Your Company records specific impairment and collective provisions to cover the credit risks inherent to its activities, as described in the sections on "loans to customers", "provisions" and "cost of risk.

    We examined the system used to control monitoring of credit risks, impairment procedures, evaluation of the risk of non-collection and the level of credit risk cover provided by specific and collective provisions.

  - Your Company calculates any impairment of its available-for-sale securities portfolio based on their market value, net of any micro-hedges as described in section on "Securities transactions – "Available-for-sale securities";

    Your Company calculates any impairment of portfolio securities, subsidiaries, associates, participating interests and other long-term investments on the basis of their going-concern value or their value in use as described in sections on "Securities transactions – Portfolio securities," and "Securities transactions – Subsidiaries, associates, participating interests and other long-term investments";

    We have assessed the reasonableness of these estimates taking into account the specific context of a still uncertain economic environment and continuing high volatility in financial markets.

  - More specifically, your Company records reserves against its investment in DHI – which holds the US real estate portfolio through the Dexia Financial Products subsidiary – on the basis of the accounting methods described in note 3.5 to the financial statements.

    Our work consisted of reviewing management's analysis of the credit quality of these assets, the estimate of expected economic losses and all major underlying assumptions made.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we expressed in the first part of this report.

III. Specific procedures and disclosures

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the documents addressed to shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L.225-102-1 of the French Commercial Code *(Code de commerce)* relating to compensation and benefits received by the directors and any other commitments made in their favour: we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling your Company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

As required by law, we have also verified that the various disclosures regarding acquisitions of equity and controlling interests are presented in the management report.

Courbevoie and Neuilly-sur-Seine, 5 April 2011

The Statutory Auditors

French original signed by Mazars : Virginie Chauvin, Hervé Hélias et Deloitte & Associés : José-Luis Garcia.

6 – Shareholders' Meeting

Statutory Auditors' special report on regulated agreements and commitments

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders:

In our capacity as Statutory Auditors of your Company, we hereby present to you our report on regulated agreements.

The terms of our engagement require us to communicate to you such agreements based on information provided to us, the principal terms and conditions of those agreements brought to our attention, without expressing an opinion on their usefulness and appropriateness. It is your responsibility, pursuant to Article R.225-31 of the French Commercial Code *(Code de commerce)*, to assess the interest involved in respect of the conclusion of these agreements for the purpose of approving them.

In addition, it is our responsibility to communicate to you the information provided for by Article R.225-31 of the French Commercial Code concerning the execution, during the year just ended, of any authorised agreements or commitments already approved by the Shareholders' Meeting.

We conducted our procedures in accordance with the professional guidelines of the French National Institute of Statutory Auditors (Compagnie Nationale des Commissaires aux Comptes) relating to this engagement. Those procedures consisted in verifying the information provided to us with the relevant source documents.

Agreements and commitments submitted for the approval of the Shareholders' Meeting

Agreements and commitments authorised during the year just ended:

In accordance with Article L.225-40 of the French Commercial Code, we have been notified of regulated agreements and commitments that were previously authorised by your Board of Directors.

Two tax group agreements in Ireland:
Common directors to Dexia SA and Dexia Crédit Local: Mrs. Swiggers and Mssrs. Dehaene and Mariani. Common director to Crediop and Dexia Crédit Local: Mr. Poupelle.

Two tax agreements were signed by Dexia Crédit Local Dublin, the Dexia Crédit Local branch in Ireland, and its Irish related companies (Dexia Bank Belgium Dublin, Dexia Investments Ireland and Dexia Crediop Ireland). These agreements are linked to the application of two Irish tax group regimes for VAT and corporate income tax.

The agreements were approved by the Board of Directors on 19 February 2010.

Agreement on intercompany sales
Common directors to Dexia SA and Dexia Crédit Local: Mrs. Swiggers and Mssrs. Dehaene and Mariani. Common director to Dexia Insurance Belgium and Dexia Crédit Local: Mr Rucheton.

Intercompany sales of assets from Dexia Crédit Local to other Dexia Group entities under the voluntary balance-sheet deleveraging program led to a loss of EUR 82.2 million in 2010, and can be broken down as follows:

- sale of EUR 375 million of "Kingdom of Belgium" bonds to Dexia Investment Company, with a loss of EUR 52.5 million;
- sale of EUR 271 million of "Italian Sovereign" bonds to Dexia Insurance Belgium, with a loss of EUR 31.0 million;
- sale of EUR 155 million of Spanish covered bonds to Dexia Insurance Belgium, with a gain of EUR 1.3 million.

The agreement was approved by the Board of Directors on 5 August 2010.

Agreement on provision of services between Dexia Crédit Local and Dexia CLF Banque
Common permanent representative to Dexia Crédit Local and director of Dexia CLF banque: Mr Poupelle.
This agreement led to the recognition of EUR 2.2 million of income in 2010. The agreement was approved by the Board of Directors on 5 August 2010.

Comfort letter granted by Dexia SA concerning Dexia banka Slovensko
Common directors to Dexia SA and Dexia Crédit Local: Mrs. Swiggers and Mssrs. Dehaene and Mariani.
A comfort letter was granted by Dexia SA to Dexia Crédit Local in connection with Dexia banka Slovensko. In the context of Dexia banka Slovensko's dispute with Ritro Finance, Dexia SA is committed to providing as much assistance as needed to Dexia banka Slovensko to help it honour any financial commitments it may incur as a result of this dispute, if Dexia banka Slovensko is fined in the court of last instance and so long as Dexia SA owns the majority of the Dexia banka Slovensko shares.
The agreement approved by the Board of Directors on 5 August 2010 had no impact on the year ended 31 December 2010.

Agreement on the purchase by Dexia Crédit Local of Greek bonds owned by Dexia banka Slovensko
Common directors to Dexia SA and Dexia Crédit Local: Mrs. Swiggers and Mssrs. Dehaene and Mariani.
One condition of the planned disposal of Dexia banka Slovensko, is Dexia Crédit Local's commitment to acquire a portfolio of Greek bonds at either face or market value. At the market value, Dexia Crédit Local would recapitalize Dexia banka Slovensko for an amount equal to the difference between the face value (EUR 110 million) and the market value.
The agreement approved by the Board of Directors on 5 November 2010 had no impact on the year ended 31 December 2010.

Agreement on the transfer from Dexia Crédit Local to Dexia Bank Belgium of the first tranche of Japanese securities
Common directors to Dexia Bank Belgium and Dexia Crédit Local: Mrs. Swiggers and Mssrs. Dehaene and Mariani.
Since the transfer had not occurred as at 31 December 2010, this agreement had no impact on the year ended 31 December 2010. This agreement was approved by the Board of Directors on 5 August 2010.

Agreements and commitments not previously authorised:

In accordance with Articles L.225-42 and L.823-12 of the French Commercial Code, we inform you that the following regulated agreements and commitments were not previously authorised by your Board of Directors.

It is our responsibility to inform you why the authorisation process was not respected.

Comfort letter granted by Dexia SA concerning Dexia banka Slovensko
Common directors to Dexia SA and Dexia Crédit Local: Mrs. Swiggers and Mssrs. Dehaene and Mariani.
The comfort letter, granted as at 5 August 2010, was updated as at 11 November 2010 following the agreement of the sale signed with Penta for the shares of Dexia banka Slovensko.
The agreement had no impact on the year ended 31 December 2010.
We inform you that this agreement was approved retrospectively by the Board of Directors on 24 February 2011.

Agreements and commitments already approved by the Shareholders' Meeting

Agreements and commitments approved in prior years with an impact on the year just ended

In addition, pursuant to Article R.225-30 of the French Commercial Code, we have been advised that the following agreements authorised by the Shareholders' Meeting in prior years remained in effect during the year just ended.

Financial Products financial guarantee restructuring:
The guarantee on the Financial Products securities portfolio has been restructured in order to transfer the costs from Dexia Crédit Local New York to Dexia Crédit Local, which holds the portfolio. In 2010, Dexia Crédit Local recorded a total expense of USD 145.1 million (EUR 109.8 million) in connection with the State guarantee fee.
The restructuring was approved by your Board of Directors on 27 November 2009.

Tax group agreement:
A tax group agreement has come into effect as from 1 January 2002 for a (renewable) period of five years. The head of the French tax group has been Dexia Établissement Stable in France, which holds 95% of the capital of Dexia Crédit Local.
In accordance with the applicable tax regulations, the agreement provides that the new head of the tax group replaces Dexia Crédit Local as the beneficiary of any related tax savings.

The agreement was approved by the Supervisory Board on 19 November 2002.

Agreements and commitments approved in prior years with no impact on the year just ended

In addition, we have been advised that the following agreements authorised by the Shareholders' Meeting in prior years had no impact on the year just ended.

Declaration of financial support on behalf of Dexia Municipal Agency
The "declaration of financial support" agreement of 16 September 1999 by Dexia Crédit Local in favour of Dexia Municipal Agency benefits the holders of bonds issued by Dexia Municipal Agency. The agreement stipulates that Dexia Crédit Local will hold over 95% of the capital stock of Dexia Municipal Agency on a long-term basis. In addition, Dexia Crédit Local will ensure that Dexia Municipal Agency pursues its activities in compliance with the provisions of Articles L.515-13 through L.515-33 of the French Monetary and Financial Code *(Code monétaire et financier)* concerning mortgage credit companies *(société de crédit foncier)* and has the financial resources needed to meet its obligations.

Courbevoie and Neuilly-sur-Seine, 5 April 2011

The Statutory Auditors

French original signed by Mazars : Virginie Chauvin, Hervé Hélias et Deloitte & Associés : José-Luis Garcia.

Resolutions proposed to the Combined Shareholders' Meeting of May 12, 2011

Submitted to the Ordinary Shareholders' Meeting

First resolution: approval of the parent company financial statements

The Ordinary Shareholders' Meeting, having heard the reports of the Board of Directors, the Chairman of the Board of Directors, and the Statutory Auditors, approves the parent company financial statements at 31 December 2010 as presented, as well as all the transactions set out in these financial statements or mentioned in the reports, showing a net loss of EUR 1,530,340,831.32.

The Ordinary Shareholders' Meeting approves all expenses and charges not deductible for tax purposes (Article 39.4 of the French General Tax Code), totalling EUR 214,977.54, which did not generate any additional corporate income tax due to the Company's loss-making position.

Second resolution: approval of the consolidated financial statements

The Ordinary Shareholders' Meeting, having heard the reports of the Board of Directors, the Chairman of the Board of Directors, and the Statutory Auditors, approves the consolidated financial statements at 31 December 2010 as presented, as well as all the transactions set out in these financial statements or mentioned in the reports, showing a net loss-Group share of EUR 695,539,793.

Third resolution: approval of any regulated agreements and commitments

The Ordinary Shareholders' Meeting, having heard the Statutory Auditors' special report on regulated agreements and commitments governed by Article L.225-38 of the French Commercial Code, approves, pursuant to Article L.225-40 of the Commercial Code, all regulated agreements and commitments mentioned therein.

Fourth resolution: discharge of Directors and Officers

By virtue of the adoption of the preceding resolutions, the Ordinary Shareholders' Meeting gives full and unconditional discharge to the Directors and Officers of the Company for the performance of their duties during the fiscal year ended 31 December 2010.

Fifth resolution: appropriation of loss

The Ordinary Shareholders' Meeting resolves to allocate the EUR 1,530,340,831.32 net loss for the fiscal year in the following manner:

- EUR 639,786,313.95 to the non-distributable reserve account established for the purpose of clearing a portion of the losses for the fiscal year ended 31 December 2010;
- EUR 699,114,407.85 to the general reserves account;
- EUR 191,440,109.52 to the additional paid-in capital account.

Following these allocations, the non-distributable reserve and general reserves will be at zero and additional paid-in capital will amount to EUR 670,492,508.62.

In accordance with Article 243 bis of the French General Tax Code, the Shareholders' Meeting recalls the dividends paid in respect of the three previous fiscal years:

EUR	2007	2008	2009
Net dividend per share	4.55	0	0
Amount per share eligible for the tax allowance (Article 158.3-2 of the French General Tax Code)	4.55(1)	0	0
Total amount eligible for the tax allowance (Article 158.3-2 of the French General Tax Code)	396,058,194.35(1)	0	0

(1) At a rate of 40%.

Shareholders' Meeting

Sixth resolution: certification of the financial statements

In accordance with Article L.822-14 of the French Commercial Code, the Ordinary Shareholders' Meeting acknowledges that the parent company and the consolidated financial statements for the fiscal year ended 31 December 2010 are certified by the Statutory Auditors:

- Hervé Helias and Virginie Chauvin, partners, representing the firm Mazars, and
- José-Luis Garcia, partner, representing the firm Deloitte & Associés.

Seventh resolution: ratification of the replacement of a Director

The Ordinary Shareholders' Meeting ratifies the 23 December 2010 resolution of the Board of Directors to appoint Alain Clot as director, to replace Pascal Poupelle, who has resigned, for the remainder of the latter's term of office, i.e. until the Shareholders' Meeting held to approve the financial statements for the fiscal year ending 31 December 2010.

Eighth resolution: renewal of a Director

The Shareholders' Meeting renews the term of office of Alain Clot as Director for a period of four years, to expire at the end of the Ordinary Shareholders' Meeting to be held in the year 2015 to approve the financial statements for the fiscal year ending 31 December 2014.

Ninth resolution: renewal of a Director

The Shareholders' Meeting renews the term of office of Jean-Luc Dehaene as Director for a period of four years, to expire at the end of the Ordinary Shareholders' Meeting to be held in the year 2015 to approve the financial statements for the fiscal year ending 31 December 2014.

Tenth resolution: renewal of a Director

The Shareholders' Meeting renews the term of office of Pierre Mariani as Director for a period of four years, to expire at the end of the Ordinary Shareholders' Meeting to be held in the year 2015 to approve the financial statements for the fiscal year ending 31 December 2014.

Eleventh resolution: renewal of a Director

The Shareholders' Meeting renews the term of office of Fédération Française du Bâtiment as Director for a period of four years, to expire at the end of the Ordinary Shareholders' Meeting to be held in the year 2015 to approve the financial statements for the fiscal year ending 31 December 2014.

Twelfth resolution: renewal of a Director

The Shareholders' Meeting renews the term of office of Fédération Nationale des Travaux Publics as Director for a period of four years, to expire at the end of the Ordinary Shareholders' Meeting to be held in the year 2015 to approve the financial statements for the fiscal year ending 31 December 2014.

Thirteenth resolution: renewal of a Director

The Shareholders' Meeting renews the term of office of Julien Brami as Director for a period of four years, to expire at the end of the Ordinary Shareholders' Meeting to be held in the year 2015 to approve the financial statements for the fiscal year ending 31 December 2014.

Fourteenth resolution: renewal of a Director

The Shareholders' Meeting renews the term of office of Jean-Pierre Brunel as Director for a period of four years, to expire at the end of the Ordinary Shareholders' Meeting to be held in the year 2015 to approve the financial statements for the fiscal year ending 31 December 2014.

Fifteenth resolution: renewal of a Director

The Shareholders' Meeting renews the term of office of Jean-Pol Henry as Director for a period of four years, to expire at the end of the Ordinary Shareholders' Meeting to be held in the year 2015 to approve the financial statements for the fiscal year ending 31 December 2014.

Sixteenth resolution: renewal of a Director

The Shareholders' Meeting renews the term of office of Philippe Rucheton as Director for a period of four years, to expire at the end of the Ordinary Shareholders' Meeting to be held in the year 2015 to approve the financial statements for the fiscal year ending 31 December 2014.

Seventeenth resolution: renewal of a Director

The Shareholders' Meeting renews the term of office of Francine Swiggers as Director for a period of four years, to expire at the end of the Ordinary Shareholders' Meeting to be held in the year 2015 to approve the financial statements for the fiscal year ending 31 December 2014.

Eighteenth resolution: renewal of a Director

The Shareholders' Meeting renews the term of office of René Thissen as Director for a period of four years, to expire at the end of the Ordinary Shareholders' Meeting to be held in the year 2015 to approve the financial statements for the fiscal year ending 31 December 2014.

Submitted to the Extraordinary Shareholders' Meeting

Nineteenth resolution: proposal for delegation of powers in the light of a capital increase reserved for employees

The Extraordinary Shareholders' Meeting, having heard the reports of the Board of Directors and the Statutory Auditors and having noted that the shares held by employees of the Company and its related companies account for less than 3% of the capital stock, decide, in order to comply with the legal obligations resulting from item 2 of Article L.225-129-6 of the French Commercial Code, to delegate its authority to the Board of Directors, for a period of 26 months to:

- increase the capital stock in cash in favour of the employees of the Company in an amount not to exceed a total par value of EUR 100,000 by issuing, at par, new shares of the Company conferring on their holders the same rights as existing shares, and this in accordance with the conditions referred to in Article L.225-138 of the French Commercial Code and Articles L.3332-18 to L.3332-24 of the French Labour Code;
- and accordingly to grant full powers to the Board of Directors to, notably: determine the terms and conditions of all transactions to be conducted under the terms of this authorisation; determine the subscription price of the new shares, and this in accordance with the provisions of Article L.3332-20 of the French Labour Code; formally acknowledge the final completion of the increase in the Company's capital stock; proceed with the corresponding amendment of the by-laws; and take all necessary steps and carry out all necessary acts and formalities.

In accordance with the applicable laws, the other terms of the transaction will be the subject of a supplementary report to be issued by the Board of Directors and the Statutory Auditors.

Twentieth resolution: proposed elimination of shareholders' preferential subscription rights

The Extraordinary Shareholders' Meeting, having considered the reports of the Board of Directors and the Statutory Auditors and, in consequence of the preceding resolution, decides to cancel, under the provisions of Article L.225-138 of the French Commercial Code, shareholders' preferential subscription rights to the shares that will be issued in connection with the proposed capital increase and to reserve the subscription for the employees of the Company and all affiliated companies within the meaning of Article L.225-180 of the French Commercial Code.

Twenty-first resolution: powers

The Shareholders' Meeting gives full powers to the bearer of the original, a copy or an excerpt of these minutes to carry out all legal filing and publication formalities.

7 – General information

Legal and administrative information

1. Regarding the Company

Company history	Dexia Crédit Local is one of the three principal entities of the Dexia Group, the Franco-Belgian group created in 1996 through the merger of Crédit Local de France and Crédit Communal de Belgique, two credit institutions specialised in the financing of local governments and participants in local economies.
Corporate name **Trade name**	As specified in its by-laws, the Company's corporate name is Dexia Crédit Local. The Company uses the trade name Dexia.
Country of origin **Incorporation date and term**	The country of origin of the Company is France. It was incorporated in Paris on 28 August, 1989 for a term of 99 years.
Registration number	It is registered with the Clerk of the Commercial Court of Nanterre under no. 351 804 042, and its APE business identifier code is 6492Z.
Registered office	Since 1 March 2007, the Company's registered office and chief place of business is: Tour Dexia La Défense 2 – 1, passerelle des Reflets – 92913 La Défense - France (telephone: +33 (0)1 58 58 77 77)
Legal form **Applicable legislation**	Dexia Crédit Local is a French corporation (société anonyme) with a Board of Directors, as governed by Articles L.225- 17 et seq. of the French Commercial Code and Article L.511-1 of the French Monetary and Financial Code.
Business purpose	The purposes for which the Company is established are: - to conduct in France and abroad any and all credit operations promoting local development and, in particular, public services and facilities, mainly for the benefit of local governments and public corporations, local authority-backed agencies, local semi-public companies, concessionary public service companies and, more generally, agencies carrying out development and housing schemes, or which have entered into an agreement with a local authority for the construction or management of local public facilities; - to carry out, for the benefit of the above parties, insurance brokerage activities and any advisory and assistance work in matters of financial management, financial engineering and, more generally, to offer any and all services to facilitate their financial management subject to the legislative provisions relating to the exercise of certain regulated professions; - to receive cash deposits from local governments and local public entities in accordance with the regulations applicable to such bodies; - to hold the funds lent to customers, pending their use; - to issue debt securities in France and abroad in order to fund the Company's lending operations. For this purpose, the Company may: - create subsidiaries; - hold interests in companies whose business is likely to contribute to the Company's business purpose; and establish and manage reserve funds securing loans granted to the agencies mentioned in the first paragraph of this article. The Company may also carry out any and all transactions falling within the scope of its business purpose on behalf of and on the instructions of agencies and institutions set up to serve the public interest.
Fiscal year	The Company's fiscal year begins 1 January and ends 31 December.

Appropriation of net income	Net income for the year, less any prior-year losses and the appropriations provided for in Article 37 of the by-laws (5% for the legal reserve prescribed by law) plus any retained earnings, is available for distribution to shareholders. The Shareholders' Meeting determines the fraction of income available for distribution to be paid out to shareholders in the form of dividends, based on the recommendations made by the Board of Directors. The balance of income available for distribution, if any, is allocated either to retained earnings or to one or more reserves, by decision of the Shareholders' Meeting, which also decides on the use to be made of said reserves. The Shareholders' Meeting may also decide to pay dividends out of distributable reserves; in this case, the related resolution must clearly indicate from which reserves the dividends are to be taken. Insofar as it is possible, dividends are, however, taken first from distributable income for the period. The terms and conditions of payment of the dividend will be decided by the Shareholders' Meeting or, failing that, by the Board of Directors, but dividends must be paid within nine months of the fiscal year-end, unless this period is extended by order of the President of the French Commercial Court ruling on an application by the Board of Directors. Notwithstanding the foregoing, and in the cases provided for by applicable legislation, the Board of Directors is authorised to pay interim dividends to be deducted from the total dividends for the year just ended or the current year, prior to the approval of the related financial statements. The amounts and payment dates of such interim dividends will be decided by the Board of Directors. When the final dividend is set, the Shareholders' Meeting will be responsible for verifying that the provisions of the above-mentioned paragraph have been fully complied with in respect of the total dividend (including any interim dividend).
Shareholders' Meetings	**Notice of Shareholders' Meetings** Shareholders' Meetings are called in accordance with applicable regulations. They are conducted at the Company's registered office or any other location mentioned in the notice of meeting. All shareholders are entitled to obtain copies of the documents they need to be able to make informed decisions and to make a reasoned assessment of the management and control of the Company. The types of documents concerned and the rules governing their transmission to or consultation by shareholders are prescribed by law and all applicable regulations. **Right to attend Shareholders' Meetings** All shareholders are entitled to attend Shareholders' Meetings upon presentation of a proof of identity, provided that their shares are fully paid-up. The shareholders may choose to be represented by another shareholder. Proxies should be filed at the registered office at least five days before the Shareholders' Meeting. **Voting rights** Shares carry voting rights based on the proportion of capital represented. Each share entitles the owner to one vote. Each person present at the Shareholders' Meeting is entitled to exercise one vote for each share held and for each share for which he or she holds a proxy.
Place where Company's legal documents may be viewed **Responsibility for information**	All documents and information concerning the Company may be consulted at its registered office. Please address any requests to: Marc Brugière, interim Secretary General and member of the Management Board (+33 1 58 58 73 78), François Laugier, Chief Financial Officer and member of the Management Board (+33 1 58 58 58 60).

2. Outlook

Recent events	Fiscal 2010 was a continuation of fiscal 2009, with the further implementation within Dexia Crédit Local of the Dexia Group transformation plan. One of the most significant events of the year was the February 2010 decision of the European Commission to approve the assistance programme granted by the Belgian, French and Luxembourg central governments. With this decision, the European Commission confirmed Dexia's long-term viability and approved the Group's restructuring plan. The impact of the restructuring plan on Dexia Crédit Local essentially involves the sale of the Group's subsidiaries in Italy and Slovakia (by 31 October 2012) and in Spain (by 31 December 2013). New lending was voluntarily kept low during the year, and as at 31 December 2010 long-term commitments were down 7% from the previous year, at EUR 211 billion. From a funding standpoint, 2010 posted contrasting results due to the changing face of sovereign risk in Europe. In this environment, the Dexia Group issued securities totalling EUR 44.4 billion, including EUR 42.1 billion for the Dexia Crédit Local Group. The 2010 funding programme was carried out primarily through issues bearing State guarantees and sustained recourse to covered bond vehicles. The combination of an active assets disposal policy, a rapid implementation of the long-term financing programme in 2009 and 2010, and an alignment of the new commitments of the Public and Wholesale Banking business line with the Dexia Group's long-term financing capacity allowed the Bank to reduce its liquidity risk profile significantly. This allowed the Group to reduce its short-term funding requirements considerably. Similarly, the amount of funding provided by central banks went down substantially. Finally, at the end of June 2010 Dexia was able to completely disengage itself from the use of the State guarantees on its funding, as previously agreed with the European Commission. At the end of 2010, Dexia increased Dexia Crédit Local's equity by EUR 640 million by converting a subordinated loan that the Group had previously extended to its subsidiary.
Trends	The outlook for the Dexia Group, especially with regard to its banking and financial services operations on behalf of local public sector clients, was presented to investors and members of the media in October 2010. The horizon selected was the year 2014, by which date Dexia intends to have completed its financial restructuring, consolidated and grown its strongest commercial operations and optimised its business model. Insofar as the Public and Wholesale Banking activity in France is concerned, and therefore Dexia Crédit Local, Dexia's goal is to be a selective, profitable and recognised specialist, with an even broader product offering. From an organisational standpoint, the third and final part of the Group's transformation plan will have only a limited impact on employment, in the light of the high proportion of unfilled positions within the Company and an implementation schedule that extends through to end-2013.
Control	To the best of the Company's knowledge, no agreement exists whose implementation could, at a later date, bring about a change in its control.
Legal and arbitration proceedings	For at least the last 12 months, the Company was not involved in any governmental, legal or arbitration proceedings (including any proceeding of which the Company is aware that is currently in suspense or has been threatened) that could have or has recently had a material impact on the Company's financial position or profitability.
Material changes	Since the last fiscal year for which audited financial statements were published, the Company's position has not experienced any material change.
Major contracts	The Company has not entered into any major contracts (other than those entered into in the normal course of business) that could confer upon any member of the group a right or an obligation that could have a material impact upon its capacity to carry out its obligations to the holders of the securities it has issued.

Statutory Auditors

The principal and substitute Statutory Auditors of Dexia Crédit Local are:

Principal Statutory Auditors	Substitute Statutory Auditors
• **Mazars** (appointment renewed by the Shareholders' Meeting of 16 May 2008, for a six-year term) Represented by Hervé Hélias and Virginie Chauvin, Partners Exaltis - 61, rue Henri Regnault - 92075 La Défense Cedex	• **Charles de Boisriou** (appointed by the Shareholders' Meeting of 16 May 2008, for a six-year term) Exaltis - 61, rue Henri Regnault - 92075 La Défense Cedex
• **Deloitte et Associés** (appointed by the Shareholders' Meeting of 16 May 2008, for a six-year term) Represented by José-Luis Garcia, Partner 185, avenue Charles de Gaulle - 92524 Neuilly-sur-Seine Cedex	• **BEAS** (appointed by the Shareholders' Meeting of 16 May 2008, for a six-year term) Represented by Mireille Berthelot, Partner 7-9, Villa Houssay - 92524 Neuilly-sur-Seine Cedex

Fees recognised for each of the Statutory Auditors

	2009				2010			
(EUR thousands)	Mazars	%	Deloitte	%	Mazars	%	Deloitte	%
Audit								
• Statutory audit, certification, examination of parent company and consolidated financial statements	2,353	99.37%	2,519	97.90%	2,305	87.58%	2,138	84.07%
• Other assignments	15	0.63%	54	2.10%	327	12.42%	405	15.93%
Subtotal	**2,368**	**100.00%**	**2,573**	**100.00%**	**2,632**	**100.00%**	**2,543**	**100.00%**
Other services								
• Legal, tax, human resources advisory services	0	0.00%	0	0.00%	0	0.00%	0	0.00%
• Internal audit	0	0.00%	0	0.00%	0	0.00%	0	0.00%
• Other (disclosure required when > 10% of audit fees)	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Subtotal	**0**	**0.00%**	**0**	**0.00%**	**0**	**0.00%**	**0**	**0.00%**
TOTAL	**2,368**	**100.00%**	**2,573**	**100.00%**	**2,632**	**100.00%**	**2,543**	**100.00%**

Statement of the person responsible for the Registration document (*document de référence*)

This free translation of the "Statement of the person responsible for the registration document" issued in the French language is provided solely for the convenience of the English-speaking readers.

The person responsible for the Dexia Crédit Local registration document *(document de référence)* is Alain Clot, Chief Executive Officer of Dexia Crédit Local

Declaration of the person responsible for the registration document

I the undersigned, Alain Clot, Chief Executive Officer of Dexia Crédit Local,

Hereby declare, after having taken all reasonable measures to this end, that, to the best of my knowledge, the information contained in the present registration document is accurate and contains no omission that would alter its meaning.

Hereby declare, to the best of my knowledge, that the financial statements have been prepared in accordance with all applicable accounting standards and present a true and fair view of the assets, financial position and results of the Company and of all the companies included in the scope of consolidation, and that the management report on page 13 of the present document presents a true and fair view of changes in the revenues, results and financial position of the Company and of all the companies included in the scope of consolidation and a description of the main risks and uncertainties to which they are exposed.

I have obtained an audit opinion from the Statutory Auditors in which they state that they have verified the information concerning the financial position and the accounts provided in the present document and have reviewed the entire document.

The historical financial data presented in this document have been discussed in reports by the Statutory Auditors on pages 186 and 228 of the present document, as well as those included by reference for fiscal years 2008 and 2009, respectively on pages 182 and 233 of the 2008 registration document, as corrected, and on pages 194 and 245 of the 2009 registration document. The Statutory Auditors' reports on the 2010 consolidated financial statements and on the 2009 and 2008 parent company and consolidated financial statements contain some observations.

La Défense, 6 April 2011

Alain Clot
Chief Executive Officer

List of information published or released during the previous twelve months (prepared 23 March 2011)

Type of information	Publication media and date
I – Revenues and earnings	
Q4 2010 Revenues: corrective publication	BALO: 23/03/2011
Q4 2010 Revenues	BALO: 07/03/2011
Q3 2010 Revenues	BALO: 24/11/2010
30 June 2010 Interim business review	BALO: 29/10/2010
Q2 2010 Revenues	BALO: 01/09/2010
Approval of 2009 parent company and consolidated financial statements	BALO: 18/06/2010
Q1 2010 Revenues	BALO: 02/06/2010
2009 parent company financial statements	BALO: 26/04/2010
II – Corporate events	
Appointment within Dexia Crédit Local	Press release: 31/01/2011
Appointment - Director - Chief Executive Officer	Les Petites Affiches: 07/01/2011
Appointment within Dexia Crédit Local	Information note: 07/12/2010
Appointment within Dexia Crédit Local	Information note: 17/11/2010
Appointment within Dexia Crédit Local	Information note: 20/10/2010
Appointment within Dexia Crédit Local	Information note: 15/10/2010
Appointment within Dexia Crédit Local	Information note: 24/09/2010
Appointment within Dexia Crédit Local	Information note: 03/9/2010
Appointment within Dexia Crédit Local	Information note: 27/08/2010
Appointment within Dexia Crédit Local	Information note: 30/06/2010
Appointment within Dexia Crédit Local	Press release: 03/06/2010
Appointment within Dexia Crédit Local	Information note: 31/05/2010
Appointment within Dexia Crédit Local	Information note: 31/05/2010
Appointment - Director	Les Petites Affiches: 21/05/2010
Appointments within Dexia Crédit Local	Information note: 27/04/2010
Appointments within Dexia Crédit Local	Information note: 21/04/2010
Appointments within Dexia Crédit Local	Information note: 15/04/2010
Notice convening the Combined Shareholders' Meeting of 21 May 2010	BALO: 14/04/2010
III – Other information	
Dexia publishes its 2010 results	Press release: 23/02/2011
Dexia and CEMR publish 2010-2011 edition of Key Figures on Local and Regional Europe	Press release: 04/02/2011
Dexia project finance	Press release: 02/02/2011
Decision of the Bratislava Regional Court in favour of Dexia	Press release: 28/01/2011
A reinforced management team to implement the "Dexia 2014" strategic plan	Press release: 17/12/2010
The Memento Financial Guide - Local Authority Resources 2010-2011 has just been published	Press release: 07/12/2010
Dexia France Foundation and the French Heritage Foundation have, at the 93rd Congress of Mayors of France, given donations to Missions Locales youth centres in Brioude, Belfort and Bourbourg-Gravelines.	Press release: 24/11/2010
Building and public works professional stimulus plan: recap	Press release: 24/11/2010
2010 economic update	Press release: 17/11/2010

Type of information	Publication media and date
Dexia sells its Dexia banka Slovensko subsidiary to Penta	Press release: 11/11/2010
Dexia, the real estate group GHI and Vivalib launch a social housing program in Arras focusing on intergenerational diversity	Press release: 28/10/2010
Dexia publishes its "2011 Budget Orientation Debate" note	Press release: 20/10/2010
Dexia 2014: a local bank, serving 10 million customers	Press release: 12/10/2010
34 winning projects in the Dexia France Foundation "solidarity and culture in your towns" contest	Press release: 30/09/2010
Crédit Mutuel-CIC-Dexia enter industrial partnership	Press release: 30/09/2010
Press release regarding the renewal of the partnership with Vivalib	Press release: 29/09/2010
Dexia continues its commercial deployment and cost-cutting plan	Press release: 15/09/2010
Result of the stress test conducted by the CEBS and the CBFA: no need for Dexia to raise additional capital	Press release: 23/07/2010
The European Commission has published its decision of February 2010 on Dexia's restructuring plan	Press release: 02/07/2010
Dexia fully exits State guarantee support for its future funding	Press release: 30/06/2010
12th edition of *Focus*, the financial letter for urban communities	Press release: 01/06/2010
Release of the findings of the panel of experts on the rules for the marketing of structured credit by Dexia Crédit Local	Press release: 25/05/2010
Judgment of the Bratislava District Court	Press release: 18/05/2010
Accessibility of public buildings: EUR 20 billion in investments paid for by central and local governments	Press release: 05/05/2010
2009 registration document (*document de référence*)	AMF: 12/04/2010
Press release - Dexia Crédit Local: release of 2010 interim financial report	HUGIN: 10/08/2010
Press release - Dexia Crédit Local: release of annual report equivalent of the registration document	HUGIN: 13/04/2010
CERTIFICATES OF APPROVAL	
CSSF provides certificate of approval on 23/09/2010 for the 6th supplement to the 2010 Basic Prospectus	AMF: 24/09/2010
CSSF provides certificate of approval on 12/08/2010 for the 5th supplement to the 2010 Basic Prospectus	AMF: 24/09/2010
CSSF provides certificate of approval on 17/05/2010 for the 4th supplement to the 2010 Basic Prospectus	AMF: 24/09/2010
CSSF provides certificate of approval on 13/04/2010 for the 3rd supplement to the 2010 Basic Prospectus	AMF: 09/24/2010
CSSF provides certificate of approval on 16/03/2010 for the 2nd supplement to the 2010 Basic Prospectus	AMF: 24/09/2010
CSSF provides certificate of approval on 10/02/2010 for the 1st supplement to the 2010 Basic Prospectus	AMF: 24/09/2010
CSSF provides certificate of approval on 18/12/2009 for the 2010 Basic Prospectus	AMF: 24/09/2010
DEBT SECURITY ISSUES	
Dexia Crédit Local - EMTN 906 TR 1 EUR 50,000,000 – maturing March 2013	HUGIN: 08/03/2011
Dexia Crédit Local - EMTN 904 TR 1 EUR 10,000,000 - maturing February 2013	HUGIN: 17/02/2011
Dexia Crédit Local - EMTN 905 TR 1 EUR 25,000,000 – maturing November 2013	HUGIN: 17/02/2011
Dexia Crédit Local - EMTN 902 TR 1 EUR 50,000,000 - maturing February 2013	HUGIN: 10/02/2011
Dexia Crédit Local - EMTN 903 TR 1 EUR 172,000,000 - maturing February 2013	HUGIN: 09/02/2011
Dexia Crédit Local - EMTN 901 TR 1 EUR 90,000,000 – maturing January 2013	HUGIN: 18/01/2011
Dexia Crédit Local - EMTN 900 TR 1 EUR 40,000,000 – maturing January 2013	HUGIN: 17/01/2011
Dexia Crédit Local - EMTN 898 TR 1 EUR 120,000,000 – maturing December 2012	HUGIN: 09/12/2010

Type of information	Publication media and date
Dexia Crédit Local - EMTN 896 TR 1 EUR 10,000,000 – maturing 10 December 2012	HUGIN: 08/12/2010
Dexia Crédit Local - EMTN 895 TR 1 EUR 50,000,000 – maturing 3 December 2012	HUGIN: 01/12/2010
Dexia Crédit Local - EMTN 893 TR 1 EUR 15,700,000 – maturing 26 November 2012	HUGIN: 24/11/2010
Dexia Crédit Local - EMTN 892 TR 1 EUR 34,560,000 - maturing 5 February 2014	HUGIN: 24/11/2010
Dexia Crédit Local - EMTN 891 TR 1 EUR 15,000,000 – maturing 30 December 2011	HUGIN: 10/11/2010
Dexia Crédit Local - EMTN 890 TR 1 EUR 5,000,000 – maturing 4 November 2013	HUGIN: 02/11/2010
Dexia Crédit Local - EMTN 887 TR 1 EUR 1,350,000,000 - maturing June 2012 guaranteed by the States of France, Belgium and Luxembourg	HUGIN: 24/06/2010
Dexia Crédit Local - EMTN 858 TR 2 EUR 700,000,000 – maturing January 2014 guaranteed by the States of France, Belgium and Luxembourg	HUGIN: 10/06/2010
Dexia Crédit Local - EMTN 864 TR 4 EUR 100,000,000 – maturing February 2013 guaranteed by the States of France, Belgium and Luxembourg	HUGIN: 03/06/2010
Dexia Crédit Local - EMTN 885 TR 1 EUR 550,000,000 – maturing May 2014 guaranteed by the States of France, Belgium and Luxembourg	HUGIN: 26/05/2010
Dexia Crédit Local - EMTN 882 TR 1 EUR 5,000,000 – maturing May 2017	HUGIN: 06/05/2010
Dexia Crédit Local - EMTN 880 TR 1 EUR 60,000,000 – maturing November 2011	HUGIN: 30/04/2010
Dexia Crédit Local - EMTN 864 TR 3 EUR 500,000,000 – maturing February 2013 guaranteed by the States of France, Belgium and Luxembourg	HUGIN: 28/04/2010
Dexia Crédit Local - EMTN 878 TR 1 EUR 73,000,000 – maturing April 2015	HUGIN: 28/04/2010
Dexia Crédit Local - EMTN 877 TR 1 EUR 10,000,000 – maturing 30 April 2014	HUGIN: 28/04/2010
Dexia Crédit Local - EMTN 879 TR 1 EUR 40,000,000 – maturing 23 October 2012	HUGIN: 21/04/2010
Dexia Crédit Local - EMTN 864 TR 2 EUR 300,000,000 – maturing February 2013 guaranteed by the States of France, Belgium and Luxembourg	HUGIN: 07/4/2010
Dexia Crédit Local - EMTN 876 TR 1 EUR 50,000,000 – maturing April 2015	HUGIN: 07/04/2010
Dexia Crédit Local - EMTN 874 TR 1 EUR 50,000,000 – maturing April 2012	HUGIN: 01/04/2010
Dexia Crédit Local - EMTN 875 TR 1 EUR 10,000,000 – maturing March 2012	HUGIN: 01/04/2010
Dexia Crédit Local - EMTN 873 TR 1 GBP 500,000,000 - maturing April 2014 guaranteed by the States of France, Belgium and Luxembourg	HUGIN: 30/03/2010
Dexia Crédit Local - EMTN 871 TR 1 EUR 20,000,000 – maturing 27 May 2013	HUGIN: 24/03/2010
Dexia Crédit Local - EMTN 872 TR 1 EUR 17,000,000 – maturing 26 March 2015	HUGIN: 24/03/2010

Cross-reference table

Headings in the schedule in note XI of Article 14 of Commission Regulation 809/2004 (EC)

		Pages
10.	**Primary shareholders**	
10.1	Identity of the primary direct and indirect shareholders - type of control - steps taken to ensure that control is not exercised in an abusive manner	 11 / 47 None
10.2	Known agreements that could lead to a change of control	242
11.	**Financial information regarding the assets, financial position and results**	
11.1	Historical financial data	2008* and 2009** registration documents
11.2	Financial reports	
	Consolidated financial statements	41 to 44 / 93 to 185
	Parent company financial statements	44 to 46 / 189 to 227
11.3	Audit of the annual historical financial data	
11.3.1	Statutory Auditors' report on the consolidated financial statements Statutory Auditors' report on the parent company financial statements	186 and 187 228 and 229
11.3.2	Other information in the registration document verified by the Statutory Auditors	13 to 68 / 69 to 90 / 235 to 237
11.3.3	Financial data in the registration document not taken from the audited financial statements	None
11.4	Date of the most recent financial information	
11.4.1	Last fiscal year for which the financial data were audited	186 / 228
11.5	Interim financial data	
11.5.1	Quarterly and six-month data Audit of interim financial data	None None
11.6	Legal and arbitration proceedings	242
11.7	Material changes in financial position	242
12.	**Major contracts**	242
13.	**Information from third parties, declarations of specialists and declarations of interests**	None
14.	**Documents available to the public**	
	Place where documents may be consulted during the period of validity of the registration documents	241

** In accordance with Article 28 of Commission Regulation 809-2004 (EC), for reference purposes we have included the financial data for the year ended 31 December 2008, and the Statutory Auditors' reports on the consolidated and the parent company financial statements for that period, presented respectively on pages 182 and 233 of the 2008 registration document (filed on 15 April 2009 with the French Financial Markets Authority [AMF] under D.09-0250 and for which an amended statement was subsequently filed on 6 May 2009 with the French Financial Markets Authority).*

*** In accordance with Article 28 of Commission Regulation 809-2004 (EC), for reference purposes we have included the financial data for the year ended 31 December 2009, and the Statutory Auditors' reports on the consolidated and the parent company financial statements for that period, presented respectively on pages 194 and 245 of the 2009 registration document (filed on 12 April 2010 with the French Financial Markets Authority [AMF] under D.10-0246).*

Subsidiaries and affiliates in France

Subsidiaries

CBX.IA 2
1, passerelle des Reflets
Tour Dexia – La Défense 2
TSA 92202
F-92919 La Défense Cedex
Tel.: + 33 1 58 58 77 77
Acquisition and administration of buildings

Dexia Bail
1, passerelle des Reflets
Tour Dexia – La Défense 2
TSA 92202
F-92919 La Défense Cedex
Tel.: + 33 1 58 58 84 06
Equipment lease financing

Dexia CLF Banque
1, passerelle des Reflets
Tour Dexia – La Défense 2
TSA 72200
F-92919 La Défense Cedex
Tel.: + 33 1 58 58 88 02
Banking services for the local public sector

Dexia CLF Régions Bail
1, passerelle des Reflets
Tour Dexia – La Défense 2
TSA 92202
F-92919 La Défense Cedex
Tel.: + 33 1 58 58 84 06
Real estate lease financing, mainly for the local public sector

Dexia Éditions
1, passerelle des Reflets
Tour Dexia – La Défense 2
TSA 92202
F-92919 La Défense Cedex
Tel.: + 33 1 58 58 78 78
www.dexia-editions.com
Publication of specialised works on topics concerning the local public sector

Dexia Flobail
1, passerelle des Reflets
Tour Dexia – La Défense 2
TSA 92202
F-92919 La Défense Cedex
Tel.: + 33 1 58 58 84 06
Lease financing of local investments (notably for energy conservation and environmental protection)

Dexia Habitat
1, passerelle des Reflets
Tour Dexia – La Défense 2
TSA 92202
F-92919 La Défense Cedex
Tel.: + 33 1 58 58 77 77
Acquisition of holdings in public social housing and development bodies (housing authorities)

Dexia Location Longue Durée
22, rue des Deux Gares
F-92564 Rueil-Malmaison Cedex
Tel.: + 33 1 57 69 55 55
www.dexia-lld.fr
Long-term leasing and management of public sector vehicle fleets

Dexia Municipal Agency
1, passerelle des Reflets
Tour Dexia – La Défense 2
TSA 92202
F-92919 La Défense Cedex
Tel.: + 33 1 58 58 77 77
www.dexia-ma.com
Dexia Crédit Local's *société de crédit foncier*

Dexia Sofaxis
Route de Creton
F-18100 Vasselay
Tel.: + 33 2 48 48 10 10
www.dexia-sofaxis.com
Employer risks insurance brokerage and management advisory services for local governments and hospitals

Affiliates

Domiserve
6, rue André Gide
F-92320 Châtillon
Tel.: 0810 55 55 55
www.domiserve.com
Assistance for in-home services

Other Dexia Group companies in France

Dexia Asset Management France
Washington Plaza
40, rue Washington
F-75408 Paris Cedex 08
Tel.: + 33 1 53 93 40 00
www.dexia-am.com
Management of mutual funds

Dexia Ingénierie Sociale
13, rue Croquechâtaigne
BP 30064
F-45380 La Chapelle St Mesmin
Tel.: + 33 2 36 56 00 00
assurance@dexia-is.com
Supplemental medical insurance for employees of private and para-public companies

RBC Dexia Investor Services Bank France
105, rue Réaumur
F-75002 Paris
Tel.: + 33 1 70 37 83 00
Administration of securities accounts, services for institutional investors and mutual funds

International subsidiaries and locations

Subsidiaries

GERMANY

Dexia Kommunalbank Deutschland
Charlottenstraße 82
D-10969 Berlin
Tel.: + 49 30 25 59 8-0
www.dexia.de

AUSTRALIA

Dexia Crédit Local Asia Pacific Pty Ltd
207 Kent Street, Veritas House, Level 23
Sydney NSW 2000
Tel.: + 61 2 925 13 961

AUSTRIA AND CENTRAL EUROPE

Dexia Kommunalkredit Bank AG
Fischhof 3
A-1010 Vienna
Austria
Tel.: + 43 174 040 35-40
www.dexia-kom.com

Dexia Kommunalkredit Adriatic d.o.o.
Radnicka cesta 80 HR
10000 Zagreb
Croatia
Tel.: + 385 (1) 640 38 00

Dexia Kommunalkredit Bulgaria EOOD
19 Karnigradska
Sofia 1000
Bulgaria
Tel.: + 359 (2) 811 49 49
www.dexia-kom.bg

Dexia Kommunalkredit Czech Republic a.s
Wratislav Palace
Trziste 13
118 00 Prague 1
Czech Republic
Tel.: + 420 221 146 331

Dexia Kommunalkredit Hungary kft.
Horvàt u. 14-24
1027 Budapest
Hungary
Tel.: + 36 1 299 08 00

Dexia Kommunalkredit Bank Polska
Ul. Sienna 39
PL-00-121 Warsaw
Poland
Tel.: + 48 22 586 32 00
www.dexia-kom.pl

Dexia Kommunalkredit Romania SRL
Str Fagaras nr 21, Sector 1
010897 Bucharest
Romania
Tel.: + 40 21 206 01 50

Dexia banka Slovensko[1]
Hodzova 11
01011, Zilina
Slovakia
Tel.: + 421 41 51 11 101, 102
www.dexia.sk

SPAIN

Dexia Sabadell
Paseo de las Doce Estrellas 4
Campo de las Naciones
E-28042 Madrid
Tel.: + 34 91 721 33 10
www.dexiasabadell.es

UNITED STATES

Dexia FP Holdings, Inc.
445 Park Avenue, 5th floor
New York, NY 10022
Tel.: + 1 212 826 01 00

Dexia Real Estate Capital Markets
1180 NW Maple St., Suite 202
Issaquah, WA 98027
Tel.: +1 425 313 4600

ISRAEL

Dexia Israel Bank Ltd.
19 Ha'arbaa Str. – Hatichon Tower
64739 Tel Aviv
Tel.: + 972 3 764 76 00

ITALY

Dexia Crediop
Via Venti Settembre, 30
I-00187 Rome
Tel.: + 39 06 47 71 1
www.dexia-crediop.it

LUXEMBOURG

SISL
42, rue de la Vallée
L-2661 Luxembourg
Tel.: (352) 45 90 1

MEXICO

Dexia Crédito Local México
Protasio Tagle 104 Colonia
San Miguel Chapultepec
11850 Mexico City DF
Tel.: + 52 55 56 87 75 45

UNITED KINGDOM

Dexia Management Services Ltd
Shackleton House, 4 Battle Bridge Lane
London SE1 2RB - United Kingdom
Tel.: +44 207 378 77 57

SWITZERLAND

Dexia Public Finance Switzerland
2, rue de Jargonnant
CH-1207 Geneva
Tel.: + 41 22 718 01 20

Branches

CANADA

Dexia Crédit Local Canada branch
800 Square Victoria, Bureau 1620
CP 201, Montreal (Quebec)
Canada H4Z 1 E3
Tel.: + 1 514 868 1200

UNITED STATES

Dexia Crédit Local New York branch
445 Park Avenue
New York, NY 10022
USA
Tel.: + 1 212 515 70 00
www.dexia-americas.com

CAYMAN ISLANDS

Dexia Crédit Local Grand Cayman branch
c/o CIBC Bank and Trust Company (Cayman) Ltd
PO Box 694 GT
11 Dr Roy's Drive
Grand Cayman
Tel.: +212 515 7000

IRELAND

Dexia Crédit Local Dublin branch
6 George's Dock
IRL-IFSC Dublin 1
Tel.: + 353 1 670 27 00

JAPAN

Dexia Crédit Local Bank Tokyo branch
Meiji Seimei Kan 5F
2-1-1 Marunouchi, Chiyoda-ku,
Tokyo 100-0005
Tel.: + 81 3 6268 4000

Representative office

CHINA

Dexia Crédit Local
Beijing Representative Office
Room 503, F/5
9A Financial Street – Xicheng District
Beijing - China
Tel.: + 86 (0) 10 6657 5858

(1) Sale planned in the first half of 2011.

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1, passerelle des Reflets
Tour Dexia - La Défense 2
92913 La Défense Cedex - France
Tel.: + 33 (0)1 58 58 77 77
Fax: + 33 (0)1 58 58 70 00
www.dexia-creditlocal.fr

French joint stock company (*société anonyme*) with capital of EUR 500,513,102
Nanterre Register of Commerce and Companies (RCS) no. 351 804 042
VAT: FR 49 351 804 042

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